

Financial statements for the  
year ended 31 December 2021

# THE LANCASHIRE WAY

Finding the right solutions



Company details	<a href="#"><u>3</u></a>
Strategic report	<a href="#"><u>4</u></a>
Directors' report	<a href="#"><u>8</u></a>
Independent auditor's report	<a href="#"><u>10</u></a>
Statement of comprehensive income	<a href="#"><u>16</u></a>
Statement of financial position	<a href="#"><u>17</u></a>
Statement of changes in shareholder's equity	<a href="#"><u>18</u></a>
Statement of cash flows	<a href="#"><u>19</u></a>
Accounting policies	<a href="#"><u>20</u></a>
Notes to financial statements	<a href="#"><u>24</u></a>
Glossary	<a href="#"><u>51</u></a>



## BUSINESS REVIEW

### Commentary on results

For the year ended 31 December 2021 the Company made a profit after tax of \$1.7 million compared to a loss after tax of \$2.9 million for the previous year.

The Company writes a diversified book of business, mostly on a direct basis in the property, energy, marine and aviation classes. Gross written premiums increased by \$60.4 million from \$243.0 million for the year ended 31 December 2020 to \$303.4 million for the year ended 31 December 2021. The increase during 2021 was mainly driven by an increase of \$44.9m within the Property segment. The positive rating environment continued during the year.

Net retained premiums as a percentage of gross written premiums for the year ended 31 December 2021 is 13.0 per cent, compared to 10.9 per cent for the year ended 31 December 2020, reflecting changes in the mix of inwards business written and reinsurance protection purchased. Net earned premium of \$35.7 million for the year ended 31 December 2021 has increased by \$11.3 million when compared to \$24.4 million for the year ended 31 December 2020, reflecting the earned impact of the increase in gross written premium.

The net loss ratio is 59.1 per cent compared to 77.0 per cent for the year ended 31 December 2020. This reflects the impact of a lower level of risk losses in the current accident year despite the impact during 2021 of a large net risk loss relating to the political violence portfolio which was adversely impacted by the unrest in South Africa, the increase in premiums earned and a higher level of favourable development on prior years than in the previous year. In addition, favourable development in relation to prior years amounted to \$63.7 million on a gross basis and \$9.6 million net of reinsurance, compared to \$19.4 million on a gross basis and \$4.2 million net of reinsurance in the year ended 31 December 2020.

The net acquisition cost ratio, excluding override commission received on the quota share reinsurance agreement with the Company's affiliate, Lancashire Insurance Company Limited ("LICL"), is 31.8 per cent compared to 38.1 per cent in the previous year.

The gross general and administrative expense ratio for the year ended 31 December 2021 is 12.4 per cent (2020 - 13.4 per cent). The ratio has marginally decreased despite the \$3.5 million increase in expenses during the year as a result of the increase in gross premium earned. On a net basis, the expense ratio which includes the override commission received under the LICL quota share agreement is 14.7 per cent (2020 - 16.0 per cent) with the decrease in the current year being mainly due to an increase in the level of net earned premium in 2021.

Investment income for the year ended 31 December 2021 is \$3.5 million (2020 - \$4.3 million) and comprises interest income of \$2.9 million (2020 - \$4.0 million) and net realised gains on fixed interest securities of \$0.6 million (2020 - gains of \$0.3 million).

The effective tax rate for the year ended 31 December 2021 is 19.0 per cent (2020 - 17.1 per cent).

### Outlook

Management believes the company is well positioned for 2022 and will look to continue to expand where we think there is the greatest opportunity to do so. At the same time, we will maintain our portfolio in LUK's historic core lines where the level of rating increase has started to stabilise and as always, will continue to pursue opportunities as they develop and will continue to regularly review new propositions.

On the back of the composite rate increases that have been achieved across the portfolio over the last four years, we believe this improved level of pricing adequacy across the LUK underwriting will stand us in good stead into 2022 and beyond. This outlook does vary between segment and sub-segment but that positive trend is consistent across the board.

### Risk disclosures

Details of the Company's risk management objectives and policies and exposure to risk are set out in note 2.

### Statement by the Directors in performance of their statutory duties in accordance with S172(1) Companies Act 2006 (the “Act”)

The Board of Directors of the Company consider, both individually and together, that they have acted in the way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its sole member (having regard to the stakeholders and matters set out in s172(1)(a)-(f) of the Act) in the decisions taken during the year ended 31 December 2021.

In line with its annually-approved business plan, and in accordance with its approved strategy, the Company seeks to effectively manage the insurance cycle by underwriting profitable business in the specialty insurance lines in which it operates. Our strategic priorities are that we do not seek top line growth for the sake of it in markets where we do not believe the right opportunities exist, we seek to underwrite our core portfolio profitably through the insurance cycle and look to seize opportunities when they present themselves. We focus on disciplined underwriting with a strong focus on profitability and risk selection. By reducing our risk levels in markets where we consider premiums do not justify the risks presented, and seeking to expand our portfolio where the risk/return metric improves, the Company seeks to create a sustainable business operation for the long term.

We recognise that our responsibility is not only to our parent company and our clients and we strive to be a good employer, a good corporate citizen and a responsible preserver of resources.

Our employees are the lifeblood of the Company and we strive to attract and retain excellent staff. The Company actively seeks to engage with its staff, and to afford them a stable and open workplace. Our staff work on a cross-departmental basis, are provided with regular training and development and management encourages engagement across all areas of the business. The Company promotes the group values<sup>(1)</sup> set out below, and during the year, employees participated in a group-wide staff engagement survey offering employees the opportunity to give their feedback and comments across a broad range of areas. The feedback was positive. The Company recognises that promoting a positive and inclusive culture is an important factor in its continued ability to attract and retain the best talent and continues to explore how it can promote flexible working options and career development opportunities. All permanent staff are eligible to share in the Company's and Group's success through the granting of nil cost RSS awards and participation in the Company's bonus arrangements. To ensure alignment with the Company's values and to effectively monitor individual performance, certain senior managers' remuneration is overseen by the Company's Remuneration Committee.

It is crucial to the Company's long term success that it positively engages with its key stakeholders including clients, brokers, outwards reinsurers and service providers to provide suitable (re)insurance products; the Company's underwriters, claims team and senior management will meet regularly with stakeholders both in the UK and internationally to receive their feedback and insight. Our policies are important to our clients in seeking to protect them and their business from risk events, and when losses do occur we are responsive in order to provide our policyholders with ongoing support and we seek to pay their claims as expeditiously as possible.

The Company also recognises the importance of an open and constructive relationship with government agencies and regulators both in the UK and internationally when it underwrites certain overseas (re)insurance contracts, and to this end the Company has developed a range of internal procedures and processes to establish a robust operating platform to ensure compliance with legal requirements and regulatory rules and standards; and seeks to be proactive in its provision of accurate information to such agencies and regulators.

The Company is active in supporting the promotion of the interests of the wider London insurance market, and as an example of that the CEO sits on the board of the IUA. A number of other staff also contribute to the operation of IUA and other market fora.

Through the Lancashire Foundation, we make financial contributions and provide human support to a number of good causes in the places we operate around the world. The Company also seeks to help those who are in distress or at a disadvantage, through continued support of local initiatives and activities, volunteering days and mentoring opportunities.

The Company is a wholly owned subsidiary of a Group that reports against the United Nations Environment Programme Finance Initiative (I) Principles for Sustainable Insurance, and is committed to managing the environmental impacts of all its businesses, including the Company's.

#### (1) Group Values

*Leadership, exhibiting passion and commitment in all aspects of Lancashire life and inspiring others to do the same, we are*

*Aspirational, aspiring to deliver a superior service for our clients, ourselves and our business partners, we are*

*Nimble in our decisions, actions and business processes, we are*

*Collaborative, valuing teamwork and a diversity of skills and experience and sharing in our success, and we are*

*Straightforward in conducting our business in an accountable, open, honest and sustainable way.*

### Climate Change

Climate change, and more specifically climate-related risks and opportunities, have been a significant focus of the Lancashire Group during 2021. LUK is a material subsidiary undertaking and is taken into consideration and involved in the Group's climate change monitoring and reporting, risk framework and enhancements. The risk framework around climate-related risks has been enhanced significantly during the year with the establishment of both a Group Climate Change Working Group (CCWG) and a Group management ESG Coordination Committee (the 'ESG Committee'). Both have membership comprising people from across the Group and from a variety of functions, and there are common links between the CCWG, ESG Committee and the Group Executive to ensure a clear flow of information. The CRO provides quarterly updates on the work of each body to the Board.

The Group and Company's primary business purpose is to deliver bespoke risk solutions that protect their clients and support economies, businesses and communities in the face of uncertain loss events. By its nature, this long-held objective has, for many years, deeply embedded core elements of environmental, social and governance matters into the Company's insurance operations. Management believe the insurance sector plays a crucial role in empowering people to be able to take decisions with confidence knowing that if the unexpected happens their insurance partners will mitigate the effects on their business and community.

Environmental risk exposures, including assumptions related to climate change, are embedded into the Company's risk management, and performance is monitored against formal risk tolerances, in particular with regard to the exposures to natural catastrophe loss events, including weather events impacted by climate change. Stress and scenario tests performed as part of the business planning and ORSA processes include climate related scenarios and will continue to be refined and enhanced as more information becomes available. The work performed to date has not resulted in any material impact on business strategy or change to the Company's understanding of the risks' impact to the business.

During 2021 the Group developed and implemented a number of internal underwriting guidelines focused on assisting with wider global efforts to tackle issues of climate change and other environmental, social and governance factors. These have been articulated by reference to the Lloyd's market and are being rolled out across the Group's underwriting platforms.

The Group's Underwriting Committee continued to monitor exposures to a range of natural catastrophe risks, including regional windstorm and hurricane exposures, and the articulation of an appropriate underwriting and risk management strategy and management preference for these and other risk exposures linked to climate change factors. The Committee considered loss information and developing trends in the frequency and severity of weather-related and other loss events and was satisfied that the Group's underwriting strategy and reinsurance and risk management programmes are appropriate for the management of underwriting risk relating to these factors.

The Group's investment committee which provides services and submits reports to the LUK Board has focused throughout the year on the development of its investment reporting and monitoring in the context of ESG and climate change developments and expectations within the market. The committee received a presentation from external investment managers on current best practices which provided an opportunity to benchmark the Group's position and identify areas where further improvements were possible. The Group's fixed income portfolio investment managers are signatories to the world's leading proponent of responsible investment, the UN-supported 'Principles for Responsible Investment' (PRI).

The Committee monitored the ESG profile of the Group's fixed income portfolio by reference to one of the ESG rating tools used by the portfolio managers, noting that the portfolio sits within the average ESG category rating. The Committee also continued to monitor the Group's fixed income portfolio exposure to various pricing scenarios by reference to a carbon sensitivity rating tool used by certain of the Group's investment managers. In this regard the Committee noted that the available carbon intensity and ESG measurement tools are in a state of development and intends to keep the range of potential analytical tools under review in consultation with the Group's external portfolio managers. The Committee proposed a framework for the measurement of climate sensitivity and recommended to the LHL Board the introduction of a Climate Value at Risk metric (Climate VaR), which is aligned with the Paris Accord goal of limiting global temperature increases to a maximum of 1.5oC, for the Group's investment risk tolerance and preference statements. The Committee and LHL Board agreed a preference for the financial impact of this scenario on the Group's actual fixed maturity portfolio to have a less detrimental impact than the chosen benchmark model and carbon sensitivity tool. The Committee also recommended to the Board the introduction of ESG and carbon management investment guidelines in particular with respect to limitations upon assets linked to thermal coal, oil sands and Arctic energy investments to be implemented by the Group's investment managers across the Group's fixed income investment portfolios.

The Group is also committed to monitoring and offsetting its own carbon emissions and the LHL Board oversees the Group's Carbon Disclosure Project submission and its alignment with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). During the year the Group took further steps on its journey to implement the recommendations of the TCFD, in monitoring, measuring and controlling the impacts of climate change within the business, in particular in the Group's core activities of underwriting and investments.

The Group is committed to implementing and reporting against the UNEP FI Principles for Sustainable Insurance, a global framework for the insurance industry to address ESG risks and opportunities.

Clear and transparent ESG reporting is made through multiple channels, including the Group's Annual Report and Accounts, the Group's website and its work with the Carbon Disclosure Project.

**Environmental Impact and Offsetting**

The Company is committed to managing the environmental impact of its business. LUK measures its carbon footprint annually with a view to minimising its negative impact through both mitigation strategies and by offsetting 100% of its GHG emissions, in order to remain carbon neutral.

Emissions are collated over a 12-month period from 1 January 2021 to 31 December 2021 and are calculated by converting consumption data into tonnes of carbon equivalent (tCO<sub>2</sub>e) using the UK’s Department for Business, Energy and Industrial Strategy (BEIS) 2019 factors. The Company has also calculated its Scope 2 market-based emissions in line with the Greenhouse Gas Protocol’s guidance on dual reporting.

Streamlined Energy and Carbon Reporting Disclosure <sup>(4)</sup>	2021	2020
Emissions from the combustion of fuel or the operation of any facility including fugitive emissions from refrigerants use/tCO <sub>2</sub> e <sup>1</sup>	54.9	33.6
Emissions resulting from the purchase of electricity, heat, steam or cooling by the Company for its own use (location-based)/tCO <sub>2</sub> e <sup>2</sup>	71.4	56.8
Gross emissions (location-based) (Scope 1, 2)/tCO <sub>2</sub> e	126.3	90.4
Energy consumption used to calculate above emissions/kWh	634,391.9	425,642.0
Total gross emissions (Scope 1, 2 location-based, 3)/tCO <sub>2</sub> e <sup>3</sup>	350.1	224.4
tCO <sub>2</sub> e per FTE	2.7	2.2

1 Direct (Scope 1) - Gas (measured in kWh)

2 Indirect Energy (Scope 2) (location-based) - Electricity (measured in kWh)

3 Total gross emissions (tCO<sub>2</sub>e) (location-based) include the following activities: gas and electricity (measured in kWh), business travel (measured in miles and spend), additional upstream activities (measured in kWh, litres, miles and spend), water (measured in m<sup>3</sup>), waste (measured in kg), paper (measured in reams), and hotels (measured in hotel nights)

4 Emissions for the UK location and the combined UK & Offshore are apportioned to the Company based on average headcount during the year

The Company’s London office has procured 100% renewable electricity for its operations and the building in which the Company is located has achieved a BREEAM ‘excellent’ environment performance rating.

Using an operational control approach, the Company has assessed its boundaries to identify all the activities and facilities for which it is responsible. Subsequently, it has reported 100% of its Scope 1 and 2 footprint, along with areas of its Scope 3 footprint. Calculations performed follow the ISO 14064-1:2018 standard, giving absolute and intensity factors for the Company’s emissions. The Company uses the number of FTEs as its intensity metric.

Results show that location-based GHG emissions in the year were 350.1 tCO<sub>2</sub>e, comprised of direct emissions (Scope 1) amounting to 54.9 tCO<sub>2</sub>e, and indirect location-based emissions (Scope 2) amounting to 71.4 tCO<sub>2</sub>e. The source of other indirect emissions (Scope 3) comprised 223.8 tCO<sub>2</sub>e. Scope 1 and 2 emissions have increased mostly due to the office reopening after the COVID-19 lockdowns. Scope 3 emissions have also increased primarily to the lifting of some travel restrictions in 2021 resulting in an increase in business travel and hotel stays, albeit not to pre-pandemic levels.

Under the market-based methodology, the Company’s Scope 2 emissions are 66.3 tCO<sub>2</sub>e. Market-based emissions are lower than the Company’s location-based as it sources electricity for its Fenchurch Street office via a renewable tariff, backed up by associated Renewable Energy Guarantees of Origin (REGOs).

LUK is a subsidiary undertaking of the LHL Group which has fully offset its 2021 GHG market-based emissions through EcoAct by purchasing credits in the Gandhi India Wind Project and the Gaolin Wind Project, both of which generate renewable electricity in various states across China and India that have traditionally been reliant on fossil fuel generated energy. As a result these are described as carbon avoidance projects. The remaining 15% of the Group’s 2021 carbon credits have been purchased in the Cherokee Forest project in the USA. This Improved Forest Management Project protects 8,485.58 acres of mixed hardwoods, oak hickory, cove forest, and oak-pine in northeast Tennessee. The park’s management plan and governance are designed to preserve the mountain’s forest habitat while also stimulating recreation-based tourism in an economically at-risk region. As a result this is a carbon sequestration project.

The Board will continue to monitor and offset the Company’s emissions, mindful of the Company’s strategic and business operational requirements.

By order of the Board



L Byrne

Company Secretary

9 February 2022

The Directors' present their audited financial statements for Lancashire Insurance Company (UK) Limited, registered company number 05747877 for the year ended 31 December 2021.

### Principal activity

The Company is authorised by the Prudential Regulation Authority ("PRA") and the Financial Conduct Authority ("FCA") to conduct general insurance business. The Company provides insurance and reinsurance products to its customers, with an emphasis on property, energy, marine and aviation lines of business. The Company received UK regulatory authorisation to underwrite business on 30 August 2006 and commenced underwriting activity on 2 October 2006. The Directors consider that the principal activity of the Company will continue unchanged into the foreseeable future.

### Directors' interests

The names of the Directors of the Company as at 31 December 2021 appear on page 3. The Directors who served during the year are as follows:

John Cadman  
Adrian Colosso  
James Flude  
Samantha Hoe-Richardson  
David Horne  
Steve Smart  
Russell Worsley  
Steve Yeo

None of the Directors have any financial interest in the Company. The interests of Directors in other companies in the Lancashire Insurance Group are dealt with in note 15.

### Payment policy

It is the Company policy to pay creditors when they fall due for payment. Terms of payment are agreed with suppliers when negotiating each transaction and the policy is to abide by those terms, provided that the suppliers also comply with all relevant terms and conditions.

### Employees

All UK employees providing services to the Company are remunerated by LISL. The emoluments of these employees are recharged, as part of a management charge under management service agreements, ultimately, to the insurance operating divisions of the Lancashire Insurance Group.

Remuneration of Directors is dealt with in note 15.

### Statement of disclosure of information to auditors

Each person who is a Director at the date of approval of this Report confirms that:

- So far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- He or she has taken all the steps that ought to have been taken in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

### Future developments

The outlook for 2021 is discussed in the strategic report.

### Going concern

It is the responsibility of directors when preparing the financial statements to carry out an assessment to ascertain whether the company is a 'going concern'. The assessment should take into account all available information about the future, covering at least 12 months from the date on which the accounts are approved.

The Directors having reviewed the detailed risk disclosures in note 2, noting particularly the Company's short duration, highly liquid fixed interest investment portfolio and its expected liability profile, as well as the business plan and forecast for the next 12 months and the going concern section within the accounting policies on page 20 have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due. Accordingly, the Board has adopted and continues to consider appropriate the going concern basis in preparing the financial statements.

### Auditor

A Resolution will be proposed at the group annual general meeting to re-appoint KPMG LLP as auditor and to set the auditor's remuneration. The Company will then pass a resolution to reappoint KPMG LLP as auditor.

### Dividends

A dividend of \$nil was paid during 2021 (2020 - \$nil). The Directors do not recommend the payment of a final dividend.

The Company's ability to pay dividends and make capital distributions is subject to the legal and regulatory restrictions of the United Kingdom.



### Statement of Directors' responsibilities in respect of the strategic report, the Directors' report and the financial statements

The Directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK adopted International Accounting Standards and applicable law.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of its profit or loss for that period. In preparing the financial statements, the Directors are required to:

- Select suitable accounting policies and apply them consistently;
- Make judgements and estimates that are reasonable, relevant and reliable;
- State whether they have been prepared in accordance with UK adopted International Accounting Standards and applicable law;
- Assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- Use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

By order of the Board



L Byrne

Company Secretary

9 February 2022

### **INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF LANCASHIRE INSURANCE COMPANY (UK) LIMITED**

#### **1 Our opinion is unmodified**

We have audited the financial statements of Lancashire Insurance Company (UK) Limited ("the Company") for the year ended 31 December 2021 which comprise the Statement of comprehensive income, the Statement of financial position, the Statement of changes in shareholder's equity, the Statement of cash flows, and the related notes, including the accounting policies on pages 20 to 23.

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2021 and of its profit for the year then ended;
- have been properly prepared in accordance with UK-adopted International Accounting Standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

#### ***Basis for opinion***

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were first appointed as auditor by the Directors on 3 May 2017. The period of total uninterrupted engagement is for the five financial years ended 31 December 2021. We have fulfilled our ethical responsibilities under, and we remain independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to public interest entities. No non-audit services prohibited by that standard were provided.

#### **2 Key audit matters: our assessment of risks of material misstatement**

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters (unchanged from 2020), in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

**Valuation of gross and net insurance contract liabilities for losses and loss adjustment expenses of IBNR on a gross and net of outwards reinsurance basis**

**Risk vs 2020: ↔**

(\$305.8m gross, \$51.7m net of outwards reinsurance, of which incurred but not reported represented \$83.2m gross, \$13.5m net of outwards reinsurance; 2020: \$292.9m gross, \$44.9m net of outwards reinsurance, of which incurred but not reported represented \$80.9m gross, \$11.5m net of outwards reinsurance).

Refer to page 22 (accounting policy) and page 45 to 47 (financial disclosures)

The risk	Our response
<p>The Company maintains insurance contract liabilities to cover the estimated ultimate cost of settling all losses and loss adjustment expenses arising from events which have occurred up to the balance sheet date, regardless of whether those losses have been reported to the Company.</p> <p><b>Subjective valuation</b> Insurance liabilities represent the single largest liability for the Company. Valuation of the incurred but not reported liabilities is highly judgemental because it requires a number of assumptions to be made with high estimation uncertainty such as initial expected loss ratios, estimates of ultimate premium, claim development patterns and rate changes. The determination and application of the methodology and performance of the calculations are also complex.</p> <p>These judgemental and complex calculations for insurance liabilities are also used to derive the valuation of the related reinsurance assets.</p> <p>In setting the provision for insurance liabilities, an allowance is made for specific risks. The determination of the allowance is a subjective judgement based on the perceived uncertainty and potential for volatility in the underlying claims.</p> <p>The effect of these matters is that, as part of our risk assessment, we determined that valuation of gross and net insurance contract liabilities for losses and loss adjustment expenses has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. The financial statements (note 11) discloses the sensitivity estimated by the Company.</p>	<p>We have used our own actuarial specialists to assist us in performing our procedures in this area.</p> <p>Our procedures included:</p> <p><b>Control design and implementation</b> Evaluating and testing the design and implementation of key controls around review and approval of insurance contract liabilities. Due to the nature of this balance we would expect to obtain audit evidence primarily through detailed substantive procedures as outlined below. As such, the work over the design and implementation of controls is used to support our conclusions to the extent that the necessary evidence around key controls could be obtained.</p> <p><b>Assessment of assumptions and methodologies</b> Assessing and challenging the reserving assumptions and methodology (on a gross and net of outwards reinsurance basis) for reasonableness and consistency year on year based on our knowledge and understanding of the reserving policy within the Company. This has also involved comparing the Company's reserving methodology with industry practice and understanding the rationale for key differences.</p> <p><b>Historical experience</b> Challenging the quality of the Company's historical reserving estimates by monitoring the development of losses against initial estimates.</p> <p><b>Independent re-projections</b> Applying our own assumptions, across all attritional classes of business, to perform re-projections on the insurance contract liabilities on both a gross and net of outwards reinsurance basis and comparing these to the Company's projected results. Where there were significant variances in the results, we have challenged the Company's assumptions.</p> <p><b>Sector experience and benchmarking of large losses</b> Assessing and challenging the reserving assumptions by comparing the Company's loss experience to peers in the market, on a gross and net of outwards reinsurance basis, including on a contract by contract basis for large loss and catastrophe events. We define a large loss as a single loss or event greater than \$5m on a gross ultimate basis.</p> <p>In addition to the procedures above, the audit team performed the following procedures:</p> <p><b>Assessing transparency</b> Considering the adequacy of the Company's disclosures in respect of the valuation of insurance contract liabilities.</p> <p><b>Our Results</b> We found the valuation of the gross and net insurance contract liabilities for losses and loss adjustment expenses of IBNR to be acceptable (2020 result: acceptable).</p>

**Valuation of premiums which are estimated, included in inwards premium receivable from insureds and cedants**

**Risk vs 2020:** ↔

Included in inwards premiums receivable from insureds and cedants (2021: \$142.2m, 2020: \$130.3m).

Refer to page 22 (accounting policy) and pages 26 to 28 and 39 to 40 (financial disclosures)

The risk	Our response
<p><b>Subjective valuation:</b> There is a material proportion of premiums written, pricing for which is based on a best estimate of ultimate premiums. Judgement is involved in determining the ultimate estimates in order to establish the appropriate premium value and, ultimately, the cash to be received. As updated information is received over the life of the contract, adjustments are made to the premium recognised with inwards premiums receivable from insureds and cedants recorded on the balance sheet at the year end.</p> <p>Adjustments are made to gross premiums written to reflect the underlying adjustment to ultimate premium estimates such as declarations received on binding authority contracts, reinstatement premiums on reinsurance contracts and other routine adjustments to premium income due to policy amendments.</p> <p>The effect of these matters is that, as part of our risk assessment, we determined that the valuation of inwards premiums receivable from insureds and cedants at the year-end has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount.</p> <p>It should however be noted that it is only a portion of the inwards premiums receivable balance from insureds and cedants balance (and of total gross premiums written in the statement of comprehensive income) that are subject to this valuation risk.</p>	<p>Our procedures included:</p> <p><b>Control design and implementation</b> Evaluating and testing the design and implementation of key controls over the periodic review of premium estimates booked. Due to the nature of this balance we would expect to obtain audit evidence primarily through detailed substantive procedures as outlined below. As such, the work over the design and implementation of controls is used to support our conclusions to the extent that the necessary evidence around key controls could be obtained.</p> <p><b>Methodology assessment</b> Assessing estimated premium income for a sample of policies, including consideration of the basis of estimation and consistency in estimation methodology over time</p> <p><b>Retrospective analysis</b> Assessing the Company's past expertise in making premium estimates by comparing the estimates and actuals for the prior year estimated debtor balance.</p> <p><b>Assessing transparency</b> Considering the adequacy of the Company's disclosures in respect of the valuation of premiums which are estimated.</p> <p><b>Our Results</b> We found the valuation of premium estimates to be acceptable (2020 result: acceptable).</p>

**3 Our application of materiality and an overview of the scope of our audit**

Materiality for the financial statements as a whole was set at \$2.5m (2020: \$2.0m), determined with reference to a benchmark of gross written premiums of which it represents 0.82% (2020 0.82%).

We consider gross written premium to be the most appropriate benchmark as it provides a more stable measure year on year than profit before tax. We also compared our materiality against other relevant benchmarks (total assets, net assets and profit before tax) to ensure the materiality selected was appropriate for our audit.

In line with our audit methodology, our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual account balances add up to a material amount across the financial statements as a whole.

Performance materiality was set at 75% (2020 :75%) of materiality for the financial statements as a whole, which equates to \$1.87m (2020: \$1.5m). We applied this percentage in our determination of performance materiality because we did not identify any factors indicating an elevated level of risk.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding \$0.125m (2020: \$0.1m), in addition to other identified misstatements that warranted reporting on qualitative grounds.

We were able to rely upon the Company's internal control over financial reporting in several areas of our audit, where our controls testing supported this approach, which enabled us to reduce the scope of our substantive audit work; in the other areas the scope of the audit work performed was fully substantive.

**4 Going concern**

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or to cease their operations, and as they have concluded that the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We used our knowledge of the Company, its industry, and the general economic environment to identify the inherent risks to its business model and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period. The risk that we considered most likely to adversely affect the Company's available financial resources over this period was the valuation of insurance liabilities given the estimation and judgement involved in setting these reserves.

We considered whether these risks could plausibly affect the liquidity and solvency in the going concern period by comparing severe, but plausible downside scenarios and the degree of downside assumptions that, individually and collectively, could result in a liquidity and solvency issue (a reverse stress test), taking into account the Company's current and projected financial resources. We also assessed the completeness of the going concern disclosure.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for the going concern period; and
- We found the going concern disclosure on page 20 to be acceptable.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Company will continue in operation.

### 5 Fraud and breaches of laws and regulations – ability to detect

#### *Identifying and responding to risks of material misstatement due to fraud*

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of directors, the audit committee, internal audit and inspection of policy documentation as to the Company's high-level policies and procedures to prevent and detect fraud, including the internal audit function, and the Company's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board and audit committee minutes.
- Considering remuneration incentive schemes and performance targets for management.
- Using analytical procedures to identify any unusual or unexpected relationships.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, and taking into account possible pressures to meet profit targets and our overall knowledge of the control environment, we perform procedures to address the risk of management override of controls and the risk of fraudulent revenue recognition, in particular the risk that management may be in a position to make inappropriate accounting entries and the risk of bias in accounting estimates and judgements such as the portion of premium which is estimated.

We also identified a fraud risk in relation to the following area:

- The valuation of insurance contract liabilities due to the estimation required in setting these liabilities and the ability for changes in the valuation to be used to impact profit.

In determining the audit procedures we took into account the results of our evaluation and testing of the operating effectiveness of some of the fraud risk management controls. In order to address the risk of fraud specifically as it relates to the valuation of insurance contract liabilities, we involved actuarial specialists to assist in our challenge of management. We challenged management in relation to the selection of assumptions and the consistency of those assumptions both year on year and across different aspects of the financial reporting process.

With respect to the valuation of premiums receivable which are estimated we evaluated and tested the design and implementation of key controls over the periodic review of premium estimates booked and assessed estimated premium balances for a sample of policies, including consideration of the basis of estimation, and consistency in estimation methodology over time.

Further detail in respect of our procedures around the valuation of insurance contract liabilities and the valuation of premiums which are estimated is set out in the key audit matter disclosures in section 2 of this report

To address the pervasive risk as it relates to management override, we also performed the following procedures including:

- Identifying journal entries and other adjustments to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted by senior finance management, those posted with descriptions containing key words or phrases, those posted to unusual accounts including those related to cash and post-closing journals meeting certain criteria.
- Evaluated the business purpose of significant unusual transactions
- Assessing significant accounting estimates for bias.

#### *Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations*

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, through discussion with the directors and other management (as required by auditing

standards), from inspection of the Company's regulatory and legal correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.

As the Company is regulated, our assessment of risks involved gaining an understanding of the control environment including the entity's procedures for complying with regulatory requirements. This was achieved through the procedures noted above.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation, taxation legislation and regulatory capital, solvency and liquidity regulations, and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines, litigation or loss of regulatory approval to underwrite insurance contracts. We identified the following areas as those most likely to have such an effect: anti-bribery and certain aspects of company legislation recognising the financial and regulated nature of the Company's activities and its legal form. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

We discussed with the audit committee and those charged with governance matters related to actual or suspected breaches of laws or regulations, for which disclosure is not necessary, and considered any implications for our audit.

### *Context of the ability of the audit to detect fraud or breaches of law or regulation*

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

## **6 We have nothing to report on the strategic report and the Directors' report**

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in those reports;
- in our opinion the information given in the strategic report and the directors' report for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

## **7 We have nothing to report on the other matters on which we are required to report by exception**

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

## **8 Respective responsibilities**

### ***Directors' responsibilities***

As explained more fully in their statement set out on page 9, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

### *Auditor's responsibilities*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities).

### **9 The purpose of our audit work and to whom we owe our responsibilities**

This report is made solely to the Company's member, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's member those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's member, as a body, for our audit work, for this report, or for the opinions we have formed.



**Rajan Thakrar (Senior Statutory Auditor)**  
**for and on behalf of KPMG LLP, Statutory Auditor**  
*Chartered Accountants*  
15 Canada Square, London, E14 5GL  
9 February 2022

## Statement of comprehensive income

For the year ended 31 December 2021

	Notes	2021 \$m	2020 \$m
Gross premiums written	3	303.4	243.0
Outwards reinsurance premiums	3	(264.0)	(216.4)
<b>Net premiums written</b>		<b>39.4</b>	<b>26.6</b>
Change in unearned premiums	3	(13.9)	(1.5)
Change in unearned premiums on premiums ceded	3	10.2	(0.7)
<b>Net premiums earned</b>		<b>35.7</b>	<b>24.4</b>
Net investment income	4	2.9	4.0
Net realised gains	4	0.6	0.3
Net foreign exchange gains (losses)		0.6	(0.2)
<b>Total net revenue</b>		<b>39.8</b>	<b>28.5</b>
Insurance losses and loss adjustment expenses	3, 11	108.4	130.9
Insurance losses and loss adjustment expenses recoverable	3, 11	(87.3)	(112.1)
<b>Net insurance losses</b>		<b>21.1</b>	<b>18.8</b>
Insurance acquisition expenses	3, 5	60.7	52.5
Insurance acquisition expenses ceded and overrider commission	3, 5	(79.9)	(71.6)
Other operating expenses	6, 15	35.8	32.3
<b>Total expenses</b>		<b>37.7</b>	<b>32.0</b>
<b>Profit (loss) before tax</b>		<b>2.1</b>	<b>(3.5)</b>
Tax (charge) credit	7	(0.4)	0.6
<b>Profit (loss) for the year attributable to equity shareholder</b>		<b>1.7</b>	<b>(2.9)</b>
<b>Other comprehensive income to be reclassified to profit or loss in subsequent periods</b>			
Net change in unrealised gains on investments	4, 9	(4.8)	3.5
Tax credit (charge) on net change in unrealised gains on investments		0.9	(0.7)
<b>Other comprehensive (loss) income</b>		<b>(3.9)</b>	<b>2.8</b>
<b>Total comprehensive loss</b>		<b>(2.2)</b>	<b>(0.1)</b>

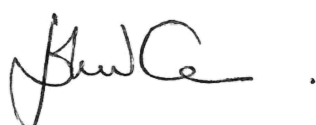


## Statement of financial position

As at 31 December 2021

	Notes	2021 \$m	2020 \$m
<b>Assets</b>			
Cash and cash equivalents	8	35.3	40.4
Accrued interest receivable	12	0.8	1.1
Investments	9	188.6	192.5
Reinsurance assets			
– Unearned premiums on premiums ceded		136.2	126.0
– Reinsurance recoveries	11,12	254.1	248.0
– Other receivables	12	20.2	19.5
Deferred acquisition costs		40.0	40.4
Other receivables	12	2.7	1.2
Corporation tax receivable	7	0.6	—
Inwards premiums receivable from insureds and cedants	12	142.2	130.3
<b>Total assets</b>		<b>820.7</b>	<b>799.4</b>
<b>Liabilities</b>			
Insurance contracts			
– Losses and loss adjustment expenses	11	305.8	292.9
– Unearned premiums		191.9	178.0
– Other payables		8.4	9.6
Amounts payable to reinsurers		87.8	80.6
Deferred acquisition costs ceded		34.8	36.7
Other payables		14.7	15.8
Corporation tax payable	7	—	5.1
Deferred tax liability	13	0.2	1.4
<b>Total liabilities</b>		<b>643.6</b>	<b>620.1</b>
<b>Shareholder's equity</b>			
Share capital	14	188.4	188.4
Accumulated other comprehensive income	9	1.4	5.3
Retained earnings		(12.7)	(14.4)
<b>Total shareholder's equity attributable to equity shareholder</b>		<b>177.1</b>	<b>179.3</b>
<b>Total liabilities and shareholder's equity</b>		<b>820.7</b>	<b>799.4</b>

The financial statements were approved by the Board of Directors and signed on its behalf by:



J. Cadman

Director

9 February 2022

## Statement of changes in shareholder's equity

For the year ended 31 December 2021

	Notes	Share capital \$m	Accumulated other comprehensive loss \$m	Retained earnings \$m	Total shareholder's equity \$m
<b>Balance as at 31 December 2019</b>	9,14	188.4	2.5	(11.5)	179.4
Total comprehensive loss for the year		—	2.8	(2.9)	(0.1)
<b>Balance as at 31 December 2020</b>	9,14	188.4	5.3	(14.4)	179.3
Total comprehensive loss for the year		—	(3.9)	1.7	(2.2)
<b>Balance as at 31 December 2021</b>	9,14	<b>188.4</b>	<b>1.4</b>	<b>(12.7)</b>	<b>177.1</b>

## Statement of cash flows

For the year ended 31 December 2021

	Notes	2021 \$m	2020 \$m
<b>Cash flows (used in) from operating activities</b>			
Profit (loss) before tax		2.1	(3.5)
<b>Adjustments for</b>			
Amortisation of fixed maturity securities		0.6	0.3
Foreign exchange (gains) losses		(0.6)	0.2
Tax paid		(2.5)	(1.6)
Interest income		(3.5)	(4.3)
Net realised gains and impairments	4	(0.6)	(0.3)
<b>Changes in operational assets and liabilities</b>			
– Insurance and reinsurance contracts		0.9	18.2
– Other assets and liabilities		(6.1)	10.2
<b>Net cash flows (used in) from operating activities</b>		<b>(9.7)</b>	<b>19.2</b>
<b>Cash flows from investing activities</b>			
Interest received		3.8	4.6
Purchase of fixed maturity securities		(93.1)	(93.4)
Proceeds on maturity and disposal of fixed maturity securities		92.3	93.1
<b>Net cash flows from investing activities</b>		<b>3.0</b>	<b>4.3</b>
<b>Cash flows used in financing activities</b>			
Dividends paid	14	—	—
<b>Net cash flows used in financing activities</b>		<b>—</b>	<b>—</b>
<b>Net (decrease) increase in cash and cash equivalents</b>		<b>(6.7)</b>	<b>23.5</b>
Cash and cash equivalents at beginning of year		40.4	16.7
Effect of exchange rate fluctuations on cash and cash equivalents		1.6	0.2
<b>Cash and cash equivalents at end of year</b>		<b>35.3</b>	<b>40.4</b>

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basis of preparation and significant accounting policies adopted in the preparation of LUK's financial statements are set out below.

### BASIS OF PREPARATION

#### GOING CONCERN BASIS OF ACCOUNTING

The financial statements are prepared on a going concern basis in accordance with UK adopted International Accounting Standards and applicable law.

In assessing the Company's going concern position as at 31 December 2021, the Directors have considered a number of factors. These include the current balance sheet and liquidity position, the level and composition of the Company's capital and solvency ratios, the current performance against the Company's strategic and financial business plan, the current market environment including consideration of the ongoing COVID-19 pandemic and climate change.

The Company's financial forecasts reflect the outcomes that the Directors consider most likely, based on the information available at the date of signing these financial statements. To assess the Company's going concern, the financial stability of the Company was modelled for a period of at least 12 months and a number of sensitivity, stress and scenario tests were applied. This included, among other analysis, a severe but plausible stress test and a reverse stress test. The testing identified that even under the more severe but plausible stress scenarios, the Company had more than adequate liquidity and solvency headroom.

Based on the going concern assessment performed as at 31 December 2021, the Directors consider there to be no material uncertainties that may cast significant doubt over the Company's ability to continue to operate as a going concern. The Directors have formed a judgement that there is a reasonable expectation that the Company has adequate resources to continue in operational existence in the foreseeable future, a period of at least twelve months from the date of signing these financial statements.

#### USE OF JUDGEMENTS AND ESTIMATES

The preparation of the Company's financial statements requires management to make judgements and estimates that affect the reported amounts of revenue, expenses, assets, liabilities and the accompanying financial statement disclosures. In the course of preparing the financial statements no key judgements have been made in the process of applying the Company's accounting policies that do not include a related element of estimation uncertainty.

The key assumptions and other sources of estimation uncertainty at 31 December 2021, that have a significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities in the next financial year, are described below. Assumptions and estimates are based on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change or circumstances may arise that are beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

The most significant judgements and estimates made by management are in relation to losses and loss adjustment expenses, both gross and net of outwards reinsurance recoverable. These are discussed on page 22 and also in the risk disclosures section from page 24.

Less significant judgements are made in determining impairment charges of financial instruments (see investment accounting policy note on page 22).

A portion of gross premiums written is based on estimates of the ultimate premiums expected to be received (see premium and acquisition costs accounting policy on page 21). Judgement is involved in determining the ultimate estimates in order to establish the appropriate premium value and, ultimately, the cash to be received.

#### OTHER BASIS OF PREPARATION

Where International Accounting Standards are silent, as it is in respect of the measurement of insurance products, the International Accounting Standards framework allows reference to another comprehensive body of accounting principles. In such instances, the Company determines appropriate measurement bases, to provide the most useful information to users of the financial statements, using their judgement and considering U.S. GAAP.

All amounts, excluding share data or where otherwise stated, are in millions of U.S. dollars.

The statement of financial position of the Company is presented in order of decreasing liquidity.

#### CHANGES IN ACCOUNTING STANDARDS

There were no new standards issued during the year ended 31 December 2021 that have had a material impact on the Company.

#### FUTURE ACCOUNTING CHANGES

IFRS 17, Insurance Contracts, issued in May 2017, specifies the financial reporting for insurance contracts and supersedes IFRS 4 Insurance Contracts. IFRS 17 will be effective for accounting periods beginning on or after 1 January 2023.

The Company is currently in the build phase of its IFRS 17 project with parallel testing of systems and processes due to commence in 2022. The standard includes a number of significant changes regarding the measurement and disclosure of insurance contracts both in terms of liability measurement and profit recognition.

The IFRS 17 general measurement model requires insurance contract liabilities to be measured using:

- probability-weighted estimates of future cash flows;
- discounting;
- a risk adjustment for non-financial risk; and
- a contractual service margin representing the unearned profit that will be recognised over the coverage period.

IFRS 17 is a principals-based accounting standard. There are a number of accounting policy choices that are allowed under the standard and this will require the application of judgement and an increased use of estimation techniques. The Company has performed an assessment and currently anticipates that it will be eligible to apply the simplified model (premium allocation approach) to its portfolios and groups of contracts. This will continue to be assessed through 2022.

IFRS 17 will result in a number of presentation differences compared to the existing IFRS 4 financial statements. The insurance service result will comprise insurance revenue, insurance service expense and insurance finance income or expense. Reinsurance contracts held are required to be presented separately from insurance contracts issued. Reinstatement premiums will be considered contingent on claims and therefore recognised against insurance service expense while commissions paid to cedants will be recognised as a deduction from insurance revenue. Non-distinct investment components, which are defined as amounts that are repayable in all circumstances, are required to be excluded from insurance revenue and expenses.

Under IFRS 17, Insurance contracts that are subject to similar risks and that are managed together are classified into a portfolio of insurance contracts. Each portfolio of insurance contracts is then divided into a minimum of three groups.

- A group of contracts that are onerous at initial recognition;
- A group of contracts that at initial recognition have no significant possibility of becoming onerous; and
- A group of the remaining contracts in the portfolio.

A group of contracts that are considered onerous on initial recognition will result in a loss being recognised immediately in the statement of comprehensive income (loss). In the balance sheet, the Company would be required to recognise a loss component in the liability for remaining coverage. The Company is currently reviewing its portfolios and groups of contracts to determine if there are any onerous contracts that may result in a transition adjustment on adoption of IFRS 17.

IFRS 17 requires that all future cash flows related to the fulfilment of insurance contracts be captured within portfolios and applied to groups of insurance contracts. The Company anticipates recognising a liability for the future expenses expected to be incurred in the servicing of insurance contracts. This will form part of the transition adjustment recognised by the Company on adoption of IFRS 17.

The Company currently anticipates that it will apply the fully retrospective transition approach when adopting IFRS 17.

In December 2021, the IASB issued Initial application of IFRS 17 and IFRS 9 - Comparative Information (Amendment to IFRS 17). The amendment was made to address possible accounting mismatches between financial assets and insurance contract liabilities in the comparative information presented on initial application of IFRS 9 and IFRS 17. The UK Endorsement Board process is still ongoing.

The Company will continue to assess the impact that the new standard will have on its results and its presentation and disclosure requirements.

IFRS 9, Financial Instruments: Classification and Measurement is effective for annual periods beginning on or after 1 January 2018. The amendments to IFRS 4, Insurance Contracts, issued in 2016, provide a temporary exemption from applying IFRS 9. The Company continues to qualify for, and has elected to apply, the temporary exemption available to companies whose predominant activity is to issue insurance contracts. The exemption lasts until the implementation date of IFRS 17 and addresses the accounting consequences of applying IFRS 9 to insurers prior to the adoption of IFRS 17. IFRS 9 introduces new classification and measurement requirements for financial instruments, an expected credit loss impairment model that replaces the IAS 39 incurred loss model and new hedge accounting requirements. Applying the new requirements of IFRS 9, the Company currently anticipates that all investments held by the Company will be classified as at FVTPL mandatory, because they are managed on a fair value basis. As a result, all investments currently disclosed in note 9 as AFS will be reclassified as at FVTPL mandatory with changes in unrealised gains or losses currently recorded within other comprehensive (loss) income to be reclassified and recorded within net investment income in profit or loss. The reclassification from AFS to FVTPL mandatory will not result in a change in the carrying value of the investments disclosed in note 9 of the financial statements. The change in classification from AFS to FVTPL mandatory will result in balances within accumulated other comprehensive income being reclassified to retained earnings on the date of transition.

### FOREIGN CURRENCY

The functional currency, which is the currency of the primary economic environment in which operations are conducted, for the Company is U.S. dollars. Items included in the financial statements are measured using the functional currency. The financial statements are also presented in U.S. dollars.

Foreign currency transactions are recorded in the functional currency using the exchange rates prevailing at the dates of the transactions, or at the average rate for the period when this is a reasonable approximation. Monetary assets and liabilities denominated in foreign currencies are revalued at period end exchange rates. The resulting exchange differences on translation are recorded in the statement of comprehensive income (loss). Non-monetary assets and liabilities carried at historical cost denominated in a foreign currency are revalued at historic rates.

## INSURANCE CONTRACTS

### CLASSIFICATION

Insurance contracts are those contracts that transfer significant insurance risk at the inception of the contract. Contracts that do not transfer significant insurance risk are accounted for as investment contracts. Insurance risk is transferred when an insurer agrees to compensate a policyholder if a specified uncertain future event adversely affects the policyholder.

### PREMIUMS AND ACQUISITION COSTS

Premiums are first recognised as written at the date that the contract is bound. The Company writes both excess of loss and pro-rata (proportional) contracts. For the majority of excess of loss contracts, written premium is recorded based on the minimum and deposit or flat premium, as defined in the contract. Subsequent adjustments to the minimum and deposit premium are recognised in the period in which they are determined. For pro-rata contracts and excess of loss contracts where no deposit is specified in the contract, written

## Accounting policies

For the year ended 31 December 2021

---

premium is recognised based on estimates of ultimate premiums provided by the insureds or ceding companies. Initial estimates of written premium are recognised in the period in which the contract is bound. Subsequent adjustments, based on reports of actual premium by the insureds or ceding companies, or revisions in estimates, are recorded in the period in which they are determined.

Premiums written are earned ratably over the term of the underlying risk period of the insurance contract, except where the period of risk differs significantly from the contract period. In these circumstances, premiums are recognised over the period of risk in proportion to the amount of insurance protection provided. The portion of the premium related to the unexpired portion of the risk period is reflected in unearned premiums.

Where contract terms require the reinstatement of coverage after an insured's or ceding company's loss, the estimated mandatory reinstatement premiums are recorded as written premiums when a specific loss event occurs. Reinstatement premiums are not recorded for losses included within the provision for IBNR which do not relate to a specific loss event.

Inwards premiums receivable from insureds and cedants are recorded net of commissions, brokerage, premium taxes and other levies on premiums, unless the contract specifies otherwise. These balances are reviewed for impairment, with any impairment loss recognised as an expense in the period in which it is determined.

Acquisition costs represent commissions, brokerage, profit commissions and other variable costs that relate directly to the securing of new contracts and the renewing of existing contracts. They are generally deferred over the period in which the related premiums are earned to the extent they are recoverable out of expected future revenue margins. All other acquisition costs are recognised as an expense when incurred.

### OUTWARDS REINSURANCE

Outwards reinsurance premiums comprise the cost of reinsurance contracts entered into. Outwards reinsurance premiums are accounted for in the period in which the contract is bound. The provision for reinsurers' share of unearned premiums represents that part of reinsurance premiums ceded which are estimated to be earned in future financial periods. Unearned reinsurance commissions are recognised as a liability using the same principles. Any amounts recoverable from reinsurers are estimated using the same methodology as the underlying losses.

Override commission is recognised in the period that the related premium is ceded and earned on the same basis as the ceded premium.

The Company monitors the credit-worthiness of its reinsurers on an on-going basis and assesses any reinsurance assets for impairment, with any impairment loss recognised as an expense in the period in which it is determined.

### LOSSES

Losses comprise losses and loss adjustment expenses paid in the period and changes in the provision for outstanding losses, including the provision for IBNR and related expenses. Losses and loss adjustment expenses are charged to income as they are incurred.

Losses and loss adjustment expenses represent the estimated ultimate cost of settling all losses and loss adjustment expenses arising from events which have occurred up to the balance sheet date, including a provision for IBNR. The Company does not discount its liabilities for unpaid losses. Outstanding losses are initially established on the basis of reports of losses received from third parties. ACRs are determined where the Company's estimate of the reported loss is greater than that reported. Estimated IBNR reserves may also consist of a provision for additional development in excess of losses reported by insureds or ceding companies, as well as a provision for losses which have occurred but which have not yet been reported by insureds or ceding companies. IBNR reserves are estimated by management using various actuarial methods as well as a combination of own loss experience, historical insurance industry loss experience, underwriters' experience, estimates of pricing adequacy trends, and management's professional judgement.

A portion of the Company's business is in classes with high attachment points of coverage. Reserving for losses in such programmes is inherently complicated in that losses in excess of the attachment level of the Company's policies are characterised by high severity and low frequency and other factors which could vary significantly as losses are settled. This limits the volume of industry loss experience available from which to reliably predict ultimate losses following a loss event.

The estimation of the ultimate loss and loss adjustment expense liability is a complex process which incorporates a significant amount of judgement. It is reasonably possible that uncertainties inherent in the reserving process, delays in insureds or ceding companies reporting losses to the Company, together with the potential for unforeseen adverse developments, could lead to a material change in estimated losses and loss adjustment expenses.

### LIABILITY ADEQUACY TESTS

At each reporting date, the Company performs a liability adequacy test to determine if there is an overall excess of expected claims over unearned premiums by using current best estimates of future cash outflows generated by its insurance contracts, plus any investment income thereon. If, as a result of these tests, the carrying amount of the Company's insurance liabilities is found to be inadequate, the deficiency is charged to income for the period, initially by writing off deferred acquisition costs and subsequently by establishing a provision.

## FINANCIAL INSTRUMENTS

### CASH AND CASH EQUIVALENTS

Cash and cash equivalents are carried in the statement of financial position at amortised cost and include cash in hand, deposits held on call with banks and other short-term highly liquid investments with a maturity of three months or less at the date of purchase. Carrying amounts approximate fair value due to the short-term nature and high liquidity of the instruments.

Interest income earned on cash and cash equivalents is recognised on the effective interest rate method. The carrying value of accrued interest income approximates fair value due to its short-term nature and high liquidity.

### INVESTMENTS

The Company's fixed maturity securities include quoted investments that are classified as AFS and are carried at fair value. The classification is determined at the time of initial purchase and depends on the nature of the investment. Fixed maturity securities

classified as AFS are those that are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in market conditions.

Regular way purchases and sales of investments are recognised at fair value including transaction costs on the trade date and are subsequently carried at fair value. The fair value of quoted investments is determined based on bid prices from recognised exchanges, broker-dealers, recognised indices or pricing vendors. Realised gains and losses are included in income in the period in which they arise. Unrealised gains and losses from changes in fair value of AFS investments are included in accumulated other comprehensive loss in shareholder's equity.

Investments are derecognised when the Company has transferred substantially all of the risks and rewards of ownership. On derecognition of an investment, previously recorded unrealised gains and losses are recycled from accumulated other comprehensive income (loss) in shareholder's equity and included in the statements of comprehensive income (loss) as a realised gain or loss within net realised gains (losses) and impairments.

Accretion and amortisation of premiums and discounts on available for sale fixed maturity securities are calculated using the effective interest rate method and are recognised in current period net investment income. Interest income is recognised on the effective interest rate method. The carrying value of accrued interest income approximates fair value due to its short-term nature and high liquidity.

The Company reviews the carrying value of its AFS investments for evidence of impairment. An investment is impaired if its carrying value exceeds the fair value and there is objective evidence of impairment to the asset. Such evidence would include a prolonged decline in fair value below cost or amortised cost, where other factors, such as expected cash flows, do not support a recovery in value. If an impairment is deemed appropriate, the difference between cost or amortised cost and fair value is removed from accumulated other comprehensive income in shareholder's equity and charged to current period income. Impairment losses on fixed maturity securities may be subsequently reversed through income.

### TAX

Income tax represents the sum of the tax currently payable and any deferred tax. The tax payable is calculated based on taxable profit for the period using tax rates and tax laws enacted or substantively enacted at the year end reporting date and any adjustments to tax payable in respect of prior periods. Taxable profit for the period can differ from that reported in the statement of comprehensive income due to certain items which are not tax deductible or which are deferred to subsequent periods.

Deferred tax is recognised on temporary differences between the assets and liabilities in the statement of financial position and their tax base. Deferred tax assets or liabilities are accounted for using the statement of financial position liability method. Deferred tax assets are recognised to the extent that realising the related tax benefit through future taxable profits is likely and are reassessed each year for recognition.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

The Company applies judgement in identifying uncertainties over income tax treatments, particularly those relating to transfer pricing. The Company determined, based on its tax compliance and transfer pricing study, that it is probable that its tax treatments will be accepted by taxation authorities.

## 1. GENERAL INFORMATION

The Company is a provider of global insurance and reinsurance products. The Company was incorporated in the UK on 17 March 2006 and is authorised by the PRA to conduct general insurance business. The Company is a limited liability company with an intermediate holding company, Lancashire Insurance Holdings (UK) Limited. LIHL is 100 per cent owned by the ultimate parent company, Lancashire Holdings Limited. The common shares of LHL trade on the main market of the London Stock Exchange.

## 2. RISK DISCLOSURES

### INTRODUCTION

The Company is exposed to risks from several sources. These include insurance risk, market risk, liquidity risk, credit risk, operational risk and strategic risk. The primary risk to the Company is insurance risk.

The primary objectives of the Company's Enterprise Risk Management are to ensure that capital resources held are matched to the risk profile of the Company and that the balance between risk and return is considered as part of all key business decisions. The Company has formulated, and keeps under review, a risk appetite which is set by the Board of Directors. The Company's appetite for risk will vary marginally from time to time to reflect the potential risks and returns that present themselves. However, protecting the Company's capital and providing LHL, the ultimate parent, with a superior risk adjusted return over the long term are constants. The risk appetites are expressed through detailed risk tolerances at both a Company and Group level. Risk tolerances represent the maximum amount of capital, generally on a modelled basis, that the Company and the Group are prepared to expose to certain risks.

The Company's Board of Directors is responsible for setting and monitoring risk appetite and tolerances. All risk tolerances are subject to at least an annual review and consideration by the Board of Directors. The Board of Directors reviews actual risk levels versus tolerances, emerging risks and any risk learning events at least quarterly. In addition, on a monthly basis, management assesses modelled potential losses against the risk tolerances and ensures that risk levels are managed in accordance with them.

### CLIMATE CHANGE

The Company is exposed to both climate-related risk and opportunities. The two major categories of risk being transition and physical risk.

Transition risks are those relating to the transition to a lower carbon economy and include risks such as policy and legal risk, technology risk, market risk and reputation risk.

Physical risks are those relating to the physical impacts of climate change which can be acute (those from increased frequency and severity of climate related events) or chronic (due to longer-term shifts in climate patterns). As an insurance company, LUK is more significantly affected by physical risk through its exposure to acute and chronic climate change. The potential financial impact from these climate-related risks is assessed through scenario testing and mitigated by the Company's strategic and risk management decisions on managing these risks. The risk assessment also considers the products currently offered by the Company and how these might change over time during the transition to a lower carbon economy.

In the Company's underwriting operations, this risk is effectively managed by supplementing the Company's internal systems, data and procedures with external vendor models. Underwriting guidelines developed in 2021 support the underwriting process and provide guidance to assist underwriters in their decision making. Performance against guidelines is monitored via the UMCC and related reporting. There are clear tolerances and preferences in place to actively manage exposures, and the Board regularly monitors the Company's PMLs. The risks to the asset side of the balance sheet from climate change are monitored through the use of a Climate VaR which is monitored versus the MSCI benchmark in part through regular reviews of the Company's third party asset managers, the asset allocation, and the underlying securities within our portfolio.

### COVID-19

On 12 March 2020, the World Health Organisation classified the COVID-19 outbreak as a pandemic. The COVID-19 pandemic has caused significant disruption in global financial markets and to worldwide economies. The COVID-19 pandemic is an ongoing situation making it exceptionally difficult to predict what the ultimate impact for the Company or the insurance industry will be. The Company continues to monitor the impact of the COVID-19 pandemic on its business. During the year ended 31 December 2021, the Company's ultimate loss estimate, net of reinsurance and the impact of inwards and outwards reinstatement premiums for COVID-19 related losses has remained unchanged.

### GROUP RISK AND RETURN COMMITTEE

The RRC seeks to optimise the capital allocation process and facilitate the appropriate use of the internal model, including considering its effectiveness. It ensures that all key areas of risk are discussed according to a schedule that covers fortnightly, monthly, quarterly, semi-annual and annual reviews. The committee meets fortnightly and is responsible for coordinating and overseeing ERM activities within the risk profile, appetites and tolerances set by the Board of Directors. The RRC includes the Group CEO and members from the finance, actuarial, modelling, operations, treasury and underwriting functions. The Chief Risk Officer attends the meetings and reports on the RRC's activities to the Board of Directors.

### CHIEF RISK OFFICER

The primary role of the CRO is to facilitate the effective operation of ERM throughout the Company at all levels. The role includes but is not limited to the following responsibilities:

- overall management of the risk management system;
- drive ERM culture, ownership and execution on three levels: Board, executive management, and operationally within the business;
- facilitate the identification, assessment, evaluation and management of existing and emerging risks by management and the Board;



- ensure that these risks are given due consideration and are embedded within management's and the Board's oversight and decision making process;
- be consulted, and opine, on policy in areas such as, but not limited to, underwriting, claims, investments, operations and capital management; and
- provide timely, accurate, reliable, factual, objective and accessible information and analysis to guide, coach and support decision making.

Responsibility for the management of individual risks has been assigned to, and forms part of the performance objectives of, the risk owners within the business. Risk owners ensure that these risks and controls are consistent with their day to day processes and the entries made in the Company risk registers, which are a direct input to the economic capital model. The CRO provides regular reports to the business, outlining the status of the Company's ERM activities and strategy, as well as formal reports to the Board of Directors in this regard. The CRO ultimately has the right to report directly to the Company's regulators if they feel that management is not appropriately addressing areas of concern.

### INTERNAL AUDIT

Internal audit plays a key role in the Company's ERM by providing an independent opinion regarding the accuracy and completeness of risks, in addition to verification of the effectiveness of controls and the consistency of their operation. Internal audit's roles and responsibilities are clearly defined through the Internal Audit Charter. The Head of Internal Audit reports directly to the Audit Committee. The CRO has input to the scope of each audit and receives a copy of each Internal Audit report. The CRO considers the findings and agreed actions in the context of the risk appetites and tolerances, plus the risk policies and risk management strategy of each area.

The integration of internal audit and ERM into the business helps facilitate the Company's management in the protection of its assets and reputation.

### ECONOMIC CAPITAL MODELS

The Company's economic capital model is primarily focused on insurance risks, however it is also used to model other risks including market, credit and operational risks.

The economic capital model produces data in the form of stochastic distributions for all classes, including non-elemental classes. The distributions include the mean outcome and the result at various return periods, including very remote events. Projected financial outcomes for each insurance class are calculated, as well as the overall portfolio including diversification credit. Diversification credit arises as individual risks are generally not strongly correlated and are unlikely to all produce profits or losses at the same time.

The six primary risk categories, insurance risk, market risk, liquidity risk, credit risk, operational risk and strategic risk, are discussed in detail below.

#### A. INSURANCE RISK

The Company underwrites worldwide, predominantly short-tail, insurance and reinsurance contracts that transfer insurance risk, including risks exposed to both natural and man-made catastrophes. The Company's exposure in connection with insurance contracts is, in the event of insured losses, whether premiums will be sufficient to cover the loss payments and expenses. Insurance and reinsurance markets are cyclical and premium rates and terms and conditions vary by line of business depending on market conditions and the stage of the cycle. Market conditions are impacted by capacity and recent loss events, and broader economic cycle impacts amongst other factors. The Company's underwriters assess likely losses using their experience and knowledge of past loss experience, industry trends and current circumstances. This allows them to estimate the premiums sufficient to meet likely losses and expenses and desired levels of profitability.

The Company considers insurance risk at an individual contract level, at a sector level, a geographic level and at an aggregate portfolio level. This ensures careful risk selection, limits on concentration and appropriate portfolio diversification are accomplished. The four principal classes of business for the Company are Property, Energy, Marine and Aviation. The level of insurance risk tolerance per peril is set by the respective Boards of Directors.

A number of controls are deployed to manage the amount of insurance exposure assumed:

- the Company has a rolling three-year strategic plan that helps establish the overriding business goals that the LUK Board of Directors aim to achieve;
- a detailed business plan is produced annually, which includes expected premiums and combined ratios by class and considers risk-adjusted profitability, capital usage and requirements. The plan is approved by the Board of Directors and is monitored, reviewed and updated on an ongoing basis;
- economic capital models are used to measure occurrence risks, aggregate risks and correlations between classes and other non-insurance risks;
- each authorised class has a predetermined normal maximum line structure;
- each underwriter has a clearly defined limit of underwriting authority;
- the Company has predetermined tolerances on probabilistic and deterministic losses of capital for certain single events;
- risk levels versus tolerances are communicated broadly on a regular basis;
- a daily underwriting call is held to peer review insurance proposals, opportunities and emerging risks;
- sophisticated pricing models are utilised in certain areas of the underwriting process;
- a number of modelling tools are deployed to simulate catastrophes and resultant losses to the portfolio and the Company; and

## Notes to the accounts

For the year ended 31 December 2021

- reinsurance may be purchased to mitigate both frequency and severity of losses on a facultative, excess of loss or proportional treaty basis.

Some of the Company's business provides coverage for natural catastrophes (e.g. hurricanes, earthquakes and floods) and is subject to potential seasonal variation. A proportion of the Company's business is exposed to large catastrophe losses in North America, Europe and Japan as a result of windstorms. The level of windstorm activity, and landfall thereof, during the North American, European and Japanese wind seasons may materially impact the Company's loss experience. The North American and Japanese wind seasons are typically June to November and the European wind season November to March. The Company also bears exposure to large losses arising from other non-seasonal natural catastrophes, such as earthquakes, tsunamis, droughts, floods and tornadoes, from risk losses throughout the year and from war, terrorism and political risk and other events.

The Company's exposures to certain peak zone elemental losses, as a percentage of capital are shown below. Net loss estimates are before income tax and net of reinstatement premiums and outwards reinsurance on a first occurrence return period basis.

As at 31 December 2021		100 year return period estimated net loss		250 year return period estimated net loss	
		\$m	% of capital	\$m	% of capital
Zones	Perils				
Gulf of Mexico <sup>(1)</sup>	Hurricane	9.6	5.4	14.4	8.1
Non-Gulf of Mexico – U.S.	Hurricane	3.6	2.0	5.1	2.9
California	Earthquake	3.8	2.1	4.5	2.5
Japan	Earthquake	0.4	0.2	0.9	0.5
Pacific North West	Earthquake	1.5	0.8	3.7	2.1
Japan	Typhoon	0.4	0.2	0.7	0.4
Pan-European	Windstorm	0.6	0.3	0.9	0.5

(1) Landing hurricane from Florida to Texas.

As at 31 December 2020		100 year return period estimated net loss		250 year return period estimated net loss	
		\$m	% of capital	\$m	% of capital
Zones	Perils				
Gulf of Mexico <sup>(1)</sup>	Hurricane	9.0	5.0	12.4	6.9
Non-Gulf of Mexico – U.S.	Hurricane	2.9	1.6	3.6	2.0
California	Earthquake	3.0	1.7	3.4	1.9
Japan	Earthquake	2.1	1.2	4.6	2.6
Pacific North West	Earthquake	1.0	0.6	3.0	1.7
Japan	Typhoon	0.6	0.3	0.8	0.4
Pan-European	Windstorm	0.7	0.4	1.0	0.6

(1) Landing hurricane from Florida to Texas.

There can be no guarantee that the modelled assumptions and techniques deployed in calculating these figures are accurate. There could also be an unmodelled loss which exceeds these figures. In addition, the models contain loss scenarios which could cause a larger loss to capital than the modelled expectation from the above return periods.

Details of annual gross premiums written by business segment are provided below:

	2021		2020	
	\$m	%	\$m	%
Property	100.2	33.0	55.3	22.8
Energy	118.7	39.1	96.3	39.6
Marine	31.8	10.5	35.7	14.7
Aviation	52.7	17.4	55.7	22.9
<b>Total</b>	<b>303.4</b>	<b>100.0</b>	<b>243.0</b>	<b>100.0</b>

Details of annual gross premiums written by geographic area of risks insured are provided below:

	2021		2020	
	\$m	%	\$m	%
U.S. and Canada	76.6	25.2	34.6	14.2
Worldwide- multi-territory	165.8	54.7	164.4	67.7
Europe	30.3	10.0	15.9	6.5
Rest of world	30.7	10.1	28.1	11.6
<b>Total</b>	<b>303.4</b>	<b>100.0</b>	<b>243.0</b>	<b>100.0</b>

Further details of the risks associated with each of these four principal business segments are described on the following pages.

### I. PROPERTY

Property direct and facultative is a worldwide book of largely commercial property business. The account spans small individual locations to Fortune 500 accounts but with a bias towards small to medium-sized risks. Policies are generally provided both for non-elemental and elemental perils, although not all risks include both elemental and non-elemental coverage. Coverage is generally written on a full value, primary or excess of loss basis, although the very largest accounts are currently seldom written at the primary level.

Terrorism business can be written either ground up or, for primary or high excess layers, with cover provided for U.S. and worldwide property risks, but typically excluding nuclear, chemical and biological coverage in most territories. Cover is generally provided to medium to large commercial and industrial enterprises. Policies are typically written for scheduled locations and exposure is controlled by setting limits on aggregate exposure within a "blast zone" radius. Some national pools are also written, which may include nuclear, chemical and biological coverage and may have an element of life coverage.

Property political risk cover is written either ground up or on an excess of loss basis. Coverage that the Company provides in the Property political risk book is split between Confiscation perils coverage and Sovereign/Quasi-Sovereign obligor coverage. Confiscation perils coverage protects against CEND (Confiscation, Expropriation, Nationalisation, Deprivation) and may be extended to include other perils. Sovereign/Quasi Sovereign obligors coverage protects against the non-payment or non-honouring of an obligation by a Sovereign or Quasi Sovereign entity. Cover is provided to medium to large commercial and industrial clients as well as bank and commodity trading clients. The Company does not cover against private obligor credit risk.

The Company is exposed to large natural catastrophe losses, such as windstorm and earthquake loss, from its remaining property direct and facultative portfolio. Exposure to such events is controlled and measured by setting limits on aggregate exposures in certain classes per geographic zone and through loss modelling. The accuracy of the latter exposure analysis is limited by the quality of data and the effectiveness of the modelling. It is possible that a catastrophic event significantly exceeds the expected modelled event loss. The Company's appetite and exposure guidelines to large losses are set out on pages 25 and 26.

Property retrocession is written on an excess of loss basis through treaty arrangements and covers elemental risks.

Reinsurance may be purchased to mitigate exposures to large natural catastrophe losses in the U.S., Canada and worldwide with certain exclusions. Reinsurance may also be purchased to reduce the Company's worldwide exposure to large risk losses. Reinsurance is typically purchased on an excess of loss basis; however, ILWs or quota share arrangements may be entered into.

### II. ENERGY

Energy risks are written mostly on a direct basis and may be ground up or for primary or excess layers on either a first loss or full value basis.

Upstream energy policies are typically package policies which may include physical damage, business interruption and third party liability sections. Coverage can include fire and explosion and elemental risks. Individual assets covered can be high value and are therefore mostly written on a subscription basis meaning that coverage is placed with multiple underwriters.

Gulf of Mexico offshore energy programmes cover elemental and non-elemental risks. Most policies have sub-limits on coverage for elemental losses. These programmes are exposed to Gulf of Mexico windstorms. Exposure to such events is controlled and measured through loss modelling. The accuracy of this exposure analysis is limited by the quality of data and the effectiveness of the modelling. It is possible that a catastrophic event significantly exceeds the expected modelled event loss. The Company's appetite and exposure guidelines to large losses are set out on pages 25 and 26.

Construction energy contracts generally cover all risks of platform and drilling units under construction at yards and offshore, during towing and installation. Onshore construction contracts are generally not written.

Downstream energy risks are generally those with an operational hydrocarbon risk - either processing and or storage and or transmission - and may also include production of chemicals and intermediates. Policies typically cover property for physical damage (including natural catastrophe) and machinery breakdown perils plus consequential business interruption exposure and may be written on a proportional or excess of loss basis, often with loss limits set at a level commensurate with a modelled "estimated maximum loss" scenario. The portfolio encompasses a global spread of accounts, and critical natural catastrophe coverage is usually sub-limited, with underwriting assessment employing industry-accepted modelling tools to assess this exposure where possible. The sector provides cover for operational assets, albeit some construction risk is covered only where it is not deemed the policy's primary exposure, whilst third party liabilities are not covered (except where required under legislation for a small sub-limited property damage cover required under 'Napoleonic code'). Reinsurance may be purchased on a facultative or treaty basis.

The Company also writes energy liability business on a stand-alone basis. Unlike the liability contained within the energy packages that the Company writes, stand-alone energy liability is written on an excess of loss basis only. Coverage is worldwide and provides coverage for all kinds of damages and loss to third parties. Coverage is generally restricted to offshore assets.

Reinsurance protection may be purchased to protect a portion of loss from elemental and non-elemental energy claims, and from the accumulation of smaller, attritional losses. Reinsurance is typically purchased on an excess of loss basis but, from time to time, quota share arrangements may be entered into. Reinsurance may be purchased on a facultative or treaty basis.

### III. MARINE

Marine business is predominantly written on a quota share basis. Marine hull and total loss is generally written on a direct basis and covers marine risks on a worldwide basis, primarily for physical damage. Marine builders risk covers the building of ocean going vessels in specialised yards worldwide. Marine hull war is mostly direct insurance of loss of vessels from war, piracy or terrorist attack, with a very limited amount of facultative reinsurance. Marine cargo programmes are not normally written.

The largest expected exposure in the marine class is from physical loss rather than from elemental loss events, although there is exposure to elemental perils and to the costs from removal of wreck.

Reinsurance may be purchased to reduce the Company's exposure to both large risk losses and an accumulation of smaller, attritional losses.

#### IV. AVIATION

AV52 is written on a risk-attaching excess of loss basis and provides coverage for third party liability, excluding own passenger liability, resulting from acts of war or hijack of aircraft. Cover excludes countries whose governments provide a backstop coverage, but does include some US commercial airlines.

Aviation deductible business is a specialist area with small individual limits normally up to \$1.0 million and covers the deductible the airline would normally have for each and every loss under the terms of their airline policy.

Aviation hull and liability provides cover to the airlines directly and includes cover for the aircraft themselves as well as losses arising from passenger and third-party liability claims against airlines and/or manufacturers.

Reinsurance may be purchased to mitigate exposures to an AV52 event loss. Reinsurance is typically purchased on a treaty excess of loss basis.

#### REINSURANCE

The Company, in the normal course of business and in accordance with its risk management practices, seeks to reduce certain types of loss that may arise from events that could cause unfavourable underwriting results, and to improve the modelled risk-adjusted change in FCBVS by entering into reinsurance arrangements. Reinsurance does not relieve the Company of its obligations to policyholders. Under the Company's reinsurance security policy, reinsurers are assessed and approved as appropriate security based on their financial strength ratings, amongst other factors. The Reinsurance Security Committee considers reinsurers that are not rated or do not fall within the pre-defined rating categories on a case by case basis, and would usually require collateral to be posted to support such obligations. There are specific guidelines for these collateralised contracts. This committee monitors its reinsurers on an ongoing basis and meets formally at least quarterly.

The Company's principal reinsurance arrangement is with LICL, through an 80.0 per cent (2020 - 80.0 per cent) whole account quota share agreement, after taking account of certain other third party inuring reinsurance contracts. At 31 December 2021 LICL was rated A (excellent) by A. M. Best.

In addition to the quota share agreement referred to above, reinsurance protection is typically purchased on an excess of loss or quota share basis and occasionally includes ILW covers. The mix of reinsurance cover is dependent on the specific loss mitigation requirements, market conditions and available capacity. The structure varies between types of peril and subclass. The Company regularly reviews its catastrophe exposures and may purchase reinsurance in order to reduce the Company's net exposure to a large natural catastrophe loss and/or to reduce net exposures to other large losses. The Company can purchase both facultative and treaty reinsurance. There is no guarantee that reinsurance coverage will be available to meet all potential loss circumstances, as it is possible that the cover purchased is not sufficient. Any loss amount which exceeds the programme would be retained by the Company. Some parts of the reinsurance programme have limited reinstatements therefore the number of claims which may be recovered from second or subsequent losses in those particular circumstances is limited.

#### INSURANCE LIABILITIES

For most insurance and reinsurance companies, the most significant judgement made by management is the estimation of losses and loss adjustment expenses. The estimation of the ultimate liability arising from claims made under insurance and reinsurance contracts is a critical estimate for the Company particularly given the nature of the business written.

Under generally accepted accounting principles, loss reserves are not permitted until the occurrence of an event which may give rise to a claim. As a result, only loss reserves applicable to losses incurred up to the reporting date are established, with no allowance for the provision of a contingency reserve to account for expected future losses or for the emergence of new types of latent claims. Claims arising from future events can be expected to require the establishment of substantial reserves from time to time. All of the Company's reserves are reported on an undiscounted basis.

Loss and loss adjustment expenses are maintained to cover the Company's estimated liability for both reported and unreported claims. Reserving methodologies that calculate an actuarial best estimate for the ultimate losses along with a reserve margin are utilised. This represents management's best estimate of ultimate loss and loss adjustment expenses. The Company's internal actuaries review the reserving assumptions and methodologies on a quarterly basis with loss estimates being generally subject to a semi-annual independent review by external actuaries. The results of the independent review are presented to the Company's Audit Committee. The Company has also established a Reserve Committee which has responsibility for the review of large claims and IBNR levels, their development and also any changes in reserving philosophy and assumptions.

The extent to which the reserving process relies on management's judgement is dependent on a number of factors including whether the business is insurance or reinsurance, whether it is short-tail or long-tail and whether the business is written on an excess of loss or pro rata basis. Generally, the Company writes most of its business on a direct excess of loss basis and the Company does not currently write a significant amount of long-tail business.

#### INSURANCE VERSUS REINSURANCE

Loss reserve calculations whether reserving for direct insurance business or for reinsurance classes are not precise in that they deal with the inherent uncertainty of assumptions regarding future reporting and development patterns, frequency and severity trends, claims settlement practices, potential changes in the legal environment and other factors, such as inflation. The estimates and judgements relied on in making loss reserve calculations are based on a number of factors and may be revised as additional experience or other data becomes available. Loss reserve calculations are also reviewed as new or improved methodologies are developed and as laws or regulations change.

Furthermore, as a business operating within a broker market, management must rely on loss information reported to brokers by other insurers and their loss adjusters, who must estimate their own losses at the policy level, often based on incomplete and changing information. The information management receives varies by cedant and may include paid losses, estimated case reserves and an estimated provision for IBNR reserves. Additionally, reserving practices and the quality of data reporting may vary among ceding companies, which adds further uncertainty to management's estimates of the ultimate losses.

### SHORT-TAIL VERSUS LONG-TAIL

In general, claims relating to short-tail risks, such as the majority of risks underwritten by the Company, are reported more promptly than those relating to long-tail risks, including the majority of casualty risks. The timeliness of reporting can be affected by such factors as the nature of the event causing the loss, the location of the loss, and whether the losses are from policies in force with insureds, primary insurers, or with reinsurers.

### EXCESS OF LOSS VERSUS PROPORTIONAL

For excess of loss contracts, which make up the majority of the Company's business, management are aided by the fact that each policy has a defined limit of liability arising from one event. Once that limit has been reached, there is no further exposure to additional losses from that policy for the same event. For proportional business, an initial estimated loss and loss expense ratio is generally used. This is based upon information provided by the insured or ceding company and/or their broker and management's historical experience of that treaty, if any, and the estimate is adjusted as actual experience becomes known.

### TIME LAGS

There is a time lag inherent in reporting from the original claimant to the primary insurer or binding authority holder to the broker and then to the reinsurer. Also, the combination of low claims frequency and high severity makes the available data more volatile and less useful for predicting ultimate losses. In the case of proportional contracts, reliance is placed on an analysis of a contract's historical experience, industry information, and the professional judgement of underwriters in estimating reserves for these contracts. In addition, if available, reliance is placed partially on ultimate loss ratio forecasts as reported by insureds or cedants, which are normally subject to a quarterly or six-month lag.

### UNCERTAINTY

As a result of the time lag described above, an estimation must be made of IBNR reserves, which consist of a provision for additional development in excess of the case reserves reported by insureds or ceding companies, as well as a provision for claims which have occurred but which have not yet been reported by insureds or ceding companies. Due to the degree of reliance that is necessarily placed on insureds or ceding companies for claims reporting, the associated time lag, the low frequency/high severity nature of much of the business that the Company underwrites, and the varying reserving practices among ceding companies, reserve estimates are highly dependent on management judgement and therefore uncertain. During the loss settlement period, which may be years in duration, additional facts regarding individual claims and trends often will become known, and current laws and case law may change, as well as regulatory directives, with a consequent impact on reserving. The claims count on the types of insurance and reinsurance that the Company writes, which are low frequency and high severity in nature, is generally low.

For certain catastrophic events there is greater uncertainty underlying the assumptions and associated estimated reserves for losses and loss adjustment expenses. Complexity resulting from problems such as policy coverage issues, multiple events affecting one geographic area and the resulting impact on claims adjusting (including the allocation of claims to the specific event and the effect of demand surge on the cost of building materials and labour) by, and communications from, insureds or ceding companies, can cause delays to the timing with which the Company is notified of changes to loss estimates.

As at 31 December 2021, management's estimates for gross IBNR of \$83.2m (31 December 2020 - \$80.9m) represented 27.2 per cent (31 December 2020 - 27.6 per cent) of total gross loss reserves. On a net basis IBNR represented 26.1 per cent of total net loss reserves (31 December 2020 - 25.6 per cent). The majority of the estimate relates to potential claims on non-elemental risks where timing delays in insured or cedant reporting may mean losses could have occurred of which the Company was not made aware by the balance sheet date.

## B. MARKET RISK

The Company is at risk of loss due to movements in market factors. The main risks include insurance risk, investment risk and currency risk.

These risks, and the management thereof, are described below.

### I. INSURANCE RISK

The Company is exposed to insurance market risk from several sources, including the following:

- the advent or continuation of a soft market, which may result in a stabilisation or decline in premium rates and/or terms and conditions for certain lines, or across all lines;
- the actions and reactions of key competitors, which may directly result in volatility in premium volumes and rates, fee levels and other input costs;
- market events, including unusual inflation in rates, may result in a limit in the availability of cover, causing political intervention or national remedies;
- failure to maintain broker, binding authority and client relationships, leading to a limited or substandard choice of risks inconsistent with the Company's risk appetite;
- changes in regulation including capital, governance or licensing requirements; and
- changes in the geopolitical environment.

The most important method to mitigate insurance market risk is to maintain strict underwriting standards. The Company manages insurance market risk in numerous ways, including the following:

- reviews and amends underwriting plans and outlook as necessary;
- reduces exposure to market sectors where conditions have reached unattractive levels;
- purchases appropriate, cost-effective reinsurance cover to mitigate exposures;
- closely monitors changes in rates and terms and conditions;
- ensures through continuous capital management that it does not allow surplus capital to drive underwriting appetite;
- holds a daily underwriting call to discuss, inter alia, market conditions and opportunities;
- reviews output from the Company's economic capital model, to assess up-to-date profitability of classes and sectors;
- participates in a quarterly Underwriting and Underwriting Risk Committee meeting to review underwriting strategy;
- participates in a fortnightly RRC meeting to discuss risk and reinsurance; and
- holds regular meetings with regulators.

Insurance contract liabilities are not directly sensitive to the level of market interest rates, as they are undiscounted and contractually non-interest bearing.

## II. INVESTMENT RISK

Movements in investments resulting from changes in interest and inflation rates and currency exchange rates, amongst other factors, may lead to an adverse impact on the value of the Company's investment portfolio. Investment guidelines are established by the Investment Committee of the LHL Board of Directors to manage this risk. The LUK Board of Directors reviews and adopts these guidelines as appropriate. Investment guidelines set parameters within which the Company's external investment managers must operate. Important parameters include guidelines on permissible assets, duration ranges, credit quality, currency, maturity, sectors, geographical, sovereign and issuer exposures. Investment guidelines exist at the Company portfolio level. Compliance with guidelines is monitored on a monthly basis. Any adjustments to the investment guidelines are approved by the Investment Risk and Return Committee of the LHL Board of Directors and the LUK Board of Directors.

Within the Company guidelines is a subset of guidelines for the portion of funds required to meet near term obligations and cash flow needs following an extreme event. The funds to cover this potential liability are designated as the "core" portfolio and the portfolio duration is matched to the duration of the insurance liabilities, within an agreed range. The core portfolio is invested in fixed maturity securities and cash and cash equivalents. The core portfolio may, at times, contain assets significantly in excess of those required to meet insurance liabilities or other defined funding needs. The subset of guidelines adds a further degree of requirements, including fewer allowable asset classes, higher credit quality, shorter duration and higher liquidity. The primary objectives of this portion of assets are capital preservation and providing liquidity to meet insurance and other near term obligations.

Assets in excess of those required to be held in the core portfolio, are typically held in the "surplus" portfolio. The surplus portfolio is invested in fixed maturity securities, cash and cash equivalents and can also be invested in derivative instruments. In general, the duration of the surplus portfolio may be slightly longer than the core portfolio. Currently, the Company does not hold any equity securities, derivative instruments or any alternative investments, such as hedge funds. At 31 December 2021, the Company was not holding any securities in the Surplus portfolio.

The Company reviews the composition, duration and asset allocation of its investment portfolio on a regular basis in order to respond to changes in interest rates and other market conditions. If certain asset classes are anticipated to produce a higher return within management's risk tolerance, an adjustment in asset allocation may be made. Conversely, if the risk profile is expected to move outside of tolerance levels, adjustments may be made to reduce the risks in the portfolio.

The Company's fixed maturity portfolios are managed by an external investment manager. The performance of the manager is monitored on an ongoing basis.

The investment portfolio is currently structured to perform better in a risk-on environment in order to mitigate the impact of a potential rise in interest rates. The Company endeavours to limit losses in risk-on, risk-off and interest rate hike scenarios. These scenarios represent what could, and most likely will occur (albeit not in the exact form of our chosen scenario). The Company also monitors the portfolio impact of more severe disaster scenarios consisting of extreme shocks.

The Investment Risk and Return Committee meets quarterly to ensure that the Company's strategic and tactical investment actions are consistent with investment risk preferences, appetite, risk and return objectives and tolerances. The Investment Risk and Return Committee also helps further develop the risk tolerances to be incorporated into the ERM framework.

## Notes to the accounts

For the year ended 31 December 2021

The investment mix of the fixed maturity portfolios is as follows:

As at 31 December 2021	Core		Surplus		Total	
	\$m	%	\$m	%	\$m	%
AFS - external						
- Short term investments	2.5	1.3	—	—	2.5	1.3
- U.S. treasuries	81.5	43.1	—	—	81.5	43.1
- Other government bonds	—	—	—	—	—	—
- U.S. municipal bonds	2.0	1.1	—	—	2.0	1.1
- Asset backed securities	0.6	0.3	—	—	0.6	0.3
- U.S. government agency mortgage backed securities	4.2	2.2	—	—	4.2	2.2
- Corporate bonds	97.8	52.0	—	—	97.8	52.0
<b>Total fixed maturity securities</b>	<b>188.6</b>	<b>100.0</b>	<b>—</b>	<b>—</b>	<b>188.6</b>	<b>100.0</b>

As at 31 December 2020	Core		Surplus		Total	
	\$m	%	\$m	%	\$m	%
AFS - external						
- Short term investments	8.0	4.2	—	—	8.0	4.2
- U.S. treasuries	50.4	26.2	7.2	3.7	57.6	29.9
- Other government bonds	3.1	1.6	—	—	3.1	1.6
- U.S. municipal bonds	2.2	1.1	—	—	2.2	1.1
- Asset backed securities	0.7	0.4	0.2	0.1	0.9	0.5
- U.S. government agency mortgage backed securities	5.8	3.0	0.7	0.4	6.5	3.4
- Corporate bonds	107.8	56.0	6.4	3.3	114.2	59.3
<b>Total fixed maturity securities</b>	<b>178.0</b>	<b>92.5</b>	<b>14.5</b>	<b>7.5</b>	<b>192.5</b>	<b>100.0</b>

The sector allocation of the corporate bonds is as follows:

As at 31 December	2021		2020	
	\$m	%	\$m	%
Industrial	60.4	61.8	70.5	56.1
Financial	34.4	35.2	37.5	37.9
Utility	3.0	3.0	6.2	6.0
Total	97.8	100.0	114.2	100.0

Corporate bonds and non-U.S. sovereign bonds by country are summarised as follows:

As at 31 December 2021	Financials	Other industries	Total corporate bonds	Other government bonds
	\$m	\$m	\$m	\$m
<b>Bonds by country</b>				
United States	25.6	52.1	77.7	—
Japan	2.8	4.1	6.9	—
Great Britain	2.4	0.9	3.3	—
France	1.2	1.8	3.0	—
Canada	—	1.9	1.9	—
Switzerland	0.3	1.4	1.7	—
Spain	1.1	—	1.1	—
Australia	0.4	0.2	0.6	—
Germany	0.6	—	0.6	—
Luxembourg	—	0.6	0.6	—
Italy	—	0.4	0.4	—
Total	34.4	63.4	97.8	—



## Notes to the accounts

For the year ended 31 December 2021

As at 31 December 2020	Financials \$m	Other industries \$m	Total corporate bonds \$m	Other government bonds \$m
<b>Bonds by country</b>				
United States	20.4	61.5	81.9	—
Japan	2.9	3.5	6.4	—
France	4.0	2.0	6.0	—
Great Britain	0.4	5.2	5.6	—
Netherlands	2.3	0.7	3.0	—
Spain	2.1	—	2.1	—
Italy	1.3	0.8	2.1	—
Canada	0.4	1.3	1.7	—
Switzerland	1.6	—	1.6	1.2
Germany	—	1.4	1.4	—
Sweden	1.4	—	1.4	—
Denmark	0.7	—	0.7	—
Australia	—	0.2	0.2	—
Ireland	—	0.1	0.1	—
Supranational	—	—	—	1.9
<b>Total</b>	<b>37.5</b>	<b>76.7</b>	<b>114.2</b>	<b>3.1</b>

The Company's net asset value is directly impacted by movements in the value of investments held. Values can be impacted by movements in interest rates, credit ratings, economic environment and outlook, and exchange rates.

The Company has no exposure to valuation risk from equity securities. The Company's investment portfolio is comprised mainly of fixed maturity securities. The fair value of the Company's fixed maturity portfolio is generally inversely correlated to movements in market interest rates. If market interest rates fall, the fair value of the Company's fixed maturity securities would tend to rise and vice versa.

The sensitivity of the price of fixed maturity securities to movements in interest rates is indicated by their duration. The greater a security's duration, the greater its price volatility to movements in interest rates. The sensitivity of the Company's fixed maturity portfolio to interest rate movements is detailed below, assuming linear movements in interest rates and excluding tax impacts:

As at 31 December	2021		2020	
	\$m	%	\$m	%
<b>Immediate shift in yield (basis points)</b>				
100	(3.7)	(1.9)	(4.2)	(2.0)
75	(2.8)	(1.4)	(3.1)	(1.5)
50	(1.8)	(1.0)	(2.1)	(1.0)
25	(0.9)	(0.5)	(1.0)	(0.5)
(25)	0.9	0.5	1.0	0.5
(50)	1.8	1.0	2.1	1.0
(75)	2.8	1.4	3.1	1.5
(100)	3.7	1.9	4.2	2.0

The Company mitigates interest rate risk on the investment portfolio by establishing and monitoring duration ranges in its investment guidelines. The duration of the core portfolio is matched to the modelled duration of the insurance reserves, within a permitted range. The permitted duration range for the surplus portfolio is between one and five years.

The duration of the externally managed portfolios are as follows:

As at 31 December	2021 years	2020 years
Core portfolio	1.9	1.9
Surplus portfolio	0.0	3.3

In addition to duration management, the Company uses VaR on a monthly basis to measure potential losses in the estimated fair values of its cash and invested assets and to understand and monitor risk. The VaR calculation is performed using variance/covariance risk modelling to capture the cash flows and embedded optionality of the portfolio. Securities are valued individually using standard market pricing models. These security valuations serve as the input to many risk analytics, including full valuation risk analyses, as well as parametric methods that rely on option adjusted risk sensitivities to approximate the risk and return profiles of the portfolio.

The principal VaR measure that is produced is an annual VaR at the 99th percentile confidence level. Under normal conditions, the portfolio is not expected to lose more than the VaR metric listed in the table below, 99% of the time over a one year time horizon.



## Notes to the accounts

For the year ended 31 December 2021

The Company's annual VaR calculations are as follows:

As at 31 December	2021		2020	
	\$m	% of shareholder's equity	\$m	% of shareholder's equity
95th percentile confidence level	2.6	1.5	3.6	2.0
99th percentile confidence level	3.7	2.1	5.0	2.8

### III. CURRENCY RISK

The Company currently underwrites from London, although risks are assumed on a worldwide basis. Risks assumed are predominantly denominated in U.S. dollars.

The Company is exposed to currency risk to the extent its assets are denominated in different currencies to its liabilities. The Company is also exposed to non-retranslation risk on non-monetary assets such as unearned premiums and deferred acquisition costs. Exchange gains and losses can impact income.

The Company hedges monetary non-U.S. dollar liabilities primarily with non-U.S. dollar assets. The Company's main foreign currency exposure relates to its insurance obligations, cash holdings, and premiums receivable.

## Notes to the accounts

For the year ended 31 December 2021

The Company's assets and liabilities, categorised by currency at their translated carrying amount, are as follows:

Assets	U.S. \$ \$m	Sterling \$m	Euro \$m	Japanese Yen \$m	South African Rand \$m	Other \$m	Total \$m
Cash and cash equivalents	14.4	0.7	1.4	1.6	17.1	0.1	35.3
Accrued interest receivable	0.8	—	—	—	—	—	0.8
Fixed maturity securities, available for sale	188.6	—	—	—	—	—	188.6
Reinsurance assets	309.5	10.6	40.0	8.3	25.0	17.1	410.5
Deferred acquisition costs	25.1	1.7	9.6	0.7	0.2	2.7	40.0
Other receivables	2.7	0.6	—	—	—	—	3.3
Inwards premiums receivable from insureds and cedants	118.3	5.9	18.3	—	1.2	(1.5)	142.2
<b>Total assets at 31 December 2021</b>	<b>659.4</b>	<b>19.5</b>	<b>69.3</b>	<b>10.6</b>	<b>43.5</b>	<b>18.4</b>	<b>820.7</b>

Liabilities	U.S. \$ \$m	Sterling \$m	Euro \$m	Japanese Yen \$m	South African Rand \$m	Other \$m	Total \$m
Losses and loss adjustment expenses	231.2	3.3	16.8	7.4	30.5	16.6	305.8
Unearned premiums	136.9	6.9	36.1	3.0	1.3	7.7	191.9
Insurance contracts – other payables	7.1	1.1	—	—	0.5	(0.3)	8.4
Amounts payable to reinsurers	62.4	—	18.0	—	9.7	(2.3)	87.8
Deferred acquisition costs ceded	21.4	1.3	8.9	0.7	0.3	2.2	34.8
Other payables	13.8	0.9	—	—	—	—	14.7
Deferred tax liability	—	0.2	—	—	—	—	0.2
<b>Total liabilities at 31 December 2021</b>	<b>472.8</b>	<b>13.7</b>	<b>79.8</b>	<b>11.1</b>	<b>42.3</b>	<b>23.9</b>	<b>643.6</b>

Assets	U.S. \$ \$m	Sterling \$m	Euro \$m	Japanese Yen \$m	South African Rand \$m	Other \$m	Total \$m
Cash and cash equivalents	36.7	0.7	0.8	2.2	—	—	40.4
Accrued interest receivable	1.1	—	—	—	—	—	1.1
Fixed maturity securities, available for sale	192.5	—	—	—	—	—	192.5
Reinsurance assets	315.2	9.4	48.3	2.6	0.5	17.5	393.5
Deferred acquisition costs	25.0	1.6	10.9	0.3	0.2	2.4	40.4
Other receivables	1.2	—	—	—	—	—	1.2
Inwards premiums receivable from insureds and cedants	103.1	1.5	22.7	—	0.3	2.7	130.3
<b>Total assets at 31 December 2020</b>	<b>674.8</b>	<b>13.2</b>	<b>82.7</b>	<b>5.1</b>	<b>1.0</b>	<b>22.6</b>	<b>799.4</b>

Liabilities	U.S. \$ \$m	Sterling \$m	Euro \$m	Japanese Yen \$m	South African Rand \$m	Other \$m	Total \$m
Losses and loss adjustment expenses	247.2	3.1	24.4	2.4	—	15.8	292.9
Unearned premiums	124.3	5.3	38.2	1.0	0.7	8.5	178.0
Insurance contracts – other payables	8.0	1.0	—	—	0.6	—	9.6
Amounts payable to reinsurers	61.0	—	19.6	—	—	—	80.6
Deferred acquisition costs ceded	22.9	1.3	10.3	—	0.3	1.9	36.7
Other payables	13.7	—	—	—	—	2.1	15.8
Corporation tax payable	—	5.1	—	—	—	—	5.1
Deferred tax liability	—	1.4	—	—	—	—	1.4
<b>Total liabilities at 31 December 2020</b>	<b>477.1</b>	<b>17.2</b>	<b>92.5</b>	<b>3.4</b>	<b>1.6</b>	<b>28.3</b>	<b>620.1</b>

The impact on net income of a proportional foreign exchange movement of 10 per cent up and 10 per cent down against the U.S. dollar at the year end spot rates would be an increase or decrease of \$0.4 million (2020 – \$0.4 million).

### C. LIQUIDITY RISK

Liquidity risk is the risk that cash may not be available to pay obligations when they are due without incurring an unreasonable cost. The Company's main exposures to liquidity risk are with respect to its insurance and investment activities. The Company is exposed if proceeds from financial assets are not sufficient to fund obligations arising from its insurance contracts. The Company can be exposed to daily calls on its available investment assets, principally to settle insurance claims.

Exposures in relation to insurance activities are as follows:

- large catastrophic events, or multiple medium-sized events in quick succession, resulting in a requirement to pay a large value of claims within a relatively short time frame;
- failure of insureds or cedants to meet their contractual obligations with respect to the payment of premiums in a timely manner; and
- failure of reinsurers to meet their contractual obligations with respect to the payment of claims in a timely manner.

Exposures in relation to investment activities are as follows:

- adverse market movements and/or a duration mismatch to obligations, resulting in investments being disposed of at a significant realised loss; and
- an inability to liquidate investments due to market conditions.

The maturity dates of the Company's fixed maturity portfolio are as follows:

As at 31 December 2021	Core \$m	Surplus \$m	Total \$m
Less than one year	37.4	—	37.4
Between one and two years	69.5	—	69.5
Between two and three years	33.5	—	33.5
Between three and four years	25.4	—	25.4
Between four and five years	9.6	—	9.6
Over five years	8.4	—	8.4
Asset backed and mortgage backed securities	4.8	—	4.8
<b>Total fixed maturity securities</b>	<b>188.6</b>	<b>—</b>	<b>188.6</b>

As at 31 December 2020	Core \$m	Surplus \$m	Total \$m
Less than one year	38.6	0.5	39.1
Between one and two years	41.5	1.6	43.1
Between two and three years	46.0	4.4	50.4
Between three and four years	16.8	1.4	18.2
Between four and five years	24.7	3.3	28.0
Over five years	3.9	2.4	6.3
Asset backed and mortgage backed securities	6.5	0.9	7.4
<b>Total fixed maturity securities</b>	<b>178.0</b>	<b>14.5</b>	<b>192.5</b>

The maturity profile of the financial liabilities of the Company is as follows:

As at 31 December 2021	Years until liability becomes due – undiscounted values					Total \$m
	Balance sheet \$m	Less than one \$m	One to three \$m	Three to five \$m	Over five \$m	
Losses and loss adjustment expenses	305.8	144.2	104.6	34.7	22.3	305.8
Insurance contracts – other payables	8.4	8.3	0.1	—	—	8.4
Amounts payable to reinsurers	87.8	87.8	—	—	—	87.8
Other payables	14.7	14.7	—	—	—	14.7
<b>Total</b>	<b>416.7</b>	<b>255.0</b>	<b>104.7</b>	<b>34.7</b>	<b>22.3</b>	<b>416.7</b>

## Notes to the accounts

For the year ended 31 December 2021

As at 31 December 2020	Years until liability becomes due – undiscounted values					Total \$m
	Balance sheet \$m	Less than one \$m	One to three \$m	Three to five \$m	Over five \$m	
Losses and loss adjustment expenses	292.9	132.4	103.3	34.2	23.0	292.9
Insurance contracts – other payables	9.6	7.6	2.0	—	—	9.6
Amounts payable to reinsurers	80.6	80.6	—	—	—	80.6
Corporation tax payable	5.1	5.1	—	—	—	5.1
Other payables	15.8	15.8	—	—	—	15.8
<b>Total</b>	<b>404.0</b>	<b>241.5</b>	<b>105.3</b>	<b>34.2</b>	<b>23.0</b>	<b>404.0</b>

While the estimation of the ultimate liability for losses and loss adjustment expenses is complex and incorporates a significant amount of judgement, the timing of payment of losses and loss adjustment expenses is also uncertain and cannot be predicted as simply as for other financial liabilities. Actuarial and statistical techniques, past experience and management's judgement have been used to determine a likely settlement pattern.

As at 31 December 2021 cash and cash equivalents were \$35.3 million (31 December 2020 – \$40.4 million). The Company manages its liquidity risks via its investment strategy to hold high quality, highly liquid, securities sufficient to meet its insurance liabilities and other near term liquidity requirements. The creation of the core portfolio with its subset of guidelines aims to ensure funds are readily available to meet potential insurance liabilities in an extreme event plus other near term liquidity requirements.

In addition, the Company has established asset allocation and maturity parameters within the investment guidelines such that the majority of the investments are in high quality assets which could be converted into cash promptly and at minimal expense. The Company monitors market changes and outlooks and re-allocates assets as deemed necessary.

### D. CREDIT RISK

Credit risk is the risk that a counterparty may fail to pay, or repay, a debt or obligation. The Company is exposed to credit risk on its fixed maturity investment portfolio and derivative instruments, its inwards premiums receivable from insureds and cedants, and on any amounts recoverable from reinsurers.

Credit risk on the fixed maturity portfolio is mitigated through the Company's policy to invest in instruments of high credit quality issuers and to limit the amounts of credit exposure with respect to particular ratings categories and any one issuer. Securities rated below an S&P or equivalent rating BBB- / Baa3 may comprise no more than 10% of portfolio value, with the exception of U.S. government and agency securities. The Company is therefore not exposed to any significant credit concentration risk on its investment portfolio, except for fixed maturity securities issued by the U.S. government and government agencies.

Credit risk on inwards premiums receivable from insureds and cedants is managed by conducting business with reputable broking organisations, with whom the Company has established relationships, and by rigorous cash collection procedures. The Company also has a broker approval process in place. Credit risk from reinsurance recoverables is primarily managed by review and approval of reinsurer security by the Group's Reinsurance Security Committee.

The table below presents an analysis of the Company's major exposures to counter-party credit risk, based on their rating. The table includes amounts due from policyholders and unsettled investment trades. The quality of these receivables is not graded, but based on management's historical experience there is limited default risk associated with these amounts.

As at 31 December 2021	Cash and fixed maturity securities \$m	Inwards premiums receivable and other receivables \$m	Reinsurance recoveries \$m
AAA	8.6	—	—
AA+, AA, AA-	89.5	—	—
A+, A, A-	77.0	20.2	254.1
BBB+, BBB, BBB-	47.7	—	—
Other	1.1	144.9	—
<b>Total</b>	<b>223.9</b>	<b>165.1</b>	<b>254.1</b>

As at 31 December 2020	Cash and fixed maturity securities \$m	Inwards premiums receivable and other receivables \$m	Reinsurance recoveries \$m
AAA	28.9	—	—
AA+, AA, AA-	72.3	—	—
A+, A, A-	73.1	19.6	240.1
BBB+, BBB, BBB-	58.2	—	0.1
Other	0.4	131.4	7.8
<b>Total</b>	<b>232.9</b>	<b>151.0</b>	<b>248.0</b>

## Notes to the accounts

For the year ended 31 December 2021

Reinsurance recoveries above include \$208.3 million (2020 - \$185.3 million) receivable from LICL which was rated A (excellent) by A.M. Best at 31 December 2021.

Under the terms of the whole account quota share agreement, LICL provides security to the Company in the form of a trust fund, consisting of cash and cash equivalents and fixed maturity securities. At 31 December 2021, an amount of \$204.5 million (2020 - \$203.3 million) was held in trust by LICL in favour of the Company.

The following table shows inwards premiums receivable that are past due but not impaired:

	2021 \$m	2020 \$m
Less than 90 days past due	12.9	11.9
Between 91 and 180 days past due	6.5	7.8
Over 180 days past due	1.5	1.4
<b>Total</b>	<b>20.9</b>	<b>21.1</b>

As at 31 December 2021 there has not been a change in our counterparty credit risk exposure, however, it is an area we continue to monitor given the ongoing COVID-19 pandemic. Provisions of \$6.3 million (2020 - \$5.3 million) have been made for impaired or irrecoverable balances and \$1 million (2020 - \$1.4 million) was charged to the statement of comprehensive income in respect of bad debts. No provisions have been made against balances recoverable from reinsurers.

### E. OPERATIONAL RISK

Operational risk is the risk of loss resulting from inadequate or failed internal processes or systems. The Company has identified and evaluated its key operational risks and these are incorporated in the risk registers and modelled directly within the capital model. The Company has also established, and monitors compliance with, internal operational risk tolerances. The RRC reviews operational risk at least on an annual basis and operational risk is covered in the CRO's quarterly ORSA reporting to the Board of Directors.

In order to manage operational risks, the Company has implemented a robust governance framework. Policies and procedures are documented and identify the key risks and controls within processes. The Company's internal audit function provides independent feedback with regard to the accuracy and completeness of key risks and controls, and independently verifies the effective operation of these through substantive testing. All higher risk areas are subject to an annual audit, while compliance with tax operating guidelines is reviewed quarterly. Frequency of consideration of audit for all other areas varies from quarterly at the most frequent to a minimum of once every three years, on a rotational basis.

As in 2020, the majority of the LISL employees providing services to the Company spent much of the year working from home with no noticeable adverse impact on the Company's operating effectiveness. The increased operational cyber risk as a result of all LISL employees working from home is managed through enhanced monitoring of network activity, targeted staff training, a quarterly risk and control affirmation process, annual testing of business continuity plans and disaster recovery plans and development of the Group's cyber security incident response plan.

### F. STRATEGIC RISK

The Company has identified several strategic risks. These include:

- the risks that either the poor execution of the business plan or an inappropriate business plan in itself results in a strategy that fails to adequately reflect the trading environment, resulting in an inability to optimise performance, including reputational risk;
- the risks of the failure to maintain adequate capital, accessing capital at an inflated cost or the inability to access capital. This includes unanticipated changes in vendor, regulatory and/or rating agency models that could result in an increase in capital requirements or a change in the type of capital required;
- the risks of succession planning, staff retention and key man risks; and
- the risks of organisational stretch as the Company grows in terms of volume of business written and number of employees as well as from transformation programmes to ensure the Company has appropriate systems and infrastructure and data in place to support the business.

### I. BUSINESS PLAN RISK

The Company addresses the risks associated with the planning and execution of the business plan through a combination of the following:

- an iterative annual forward-looking business planning process with cross departmental involvement;
- evaluation of, and approval of the annual business plan by the Board of Directors;
- regular monitoring of actual versus planned results;
- application of sensitivity, stress and scenario tests to the base case business plan; and
- periodic review and re-forecasting as market conditions change.

### II. CAPITAL MANAGEMENT RISK

The total capital of the Company as at 31 December 2021 is \$177.1 million (31 December 2020 - \$179.3 million). The Company's capital requirements vary with the insurance cycle.

Risks associated with the effectiveness of the Company's capital management, are mitigated as follows:

- regular monitoring of current and prospective regulatory and rating agency capital requirements;
- oversight of capital requirements by the Board of Directors;
- ability to purchase sufficient, cost effective reinsurance; and
- maintaining contact with vendors, regulators and rating agencies in order to stay abreast of upcoming developments.

The Company reviews the level and composition of capital on an ongoing basis with a view to:

- maintaining sufficient capital for underwriting opportunities and to meet obligations to policyholders;
- maximising the risk-adjusted return to shareholders within predetermined risk tolerances;
- maintaining adequate financial strength ratings; and
- meeting internal, rating agency and regulatory capital requirements.

Internal methods have been developed to review the profitability of classes of business and their estimated capital requirements, and the capital requirements of the combination of a wide range of other risk categories. Management increasingly uses these approaches in decision making. The Company also conducts capital requirement assessments under internal measures and local regulatory requirements.

### III. RETENTION RISK

Risks associated with succession planning, staff retention and key man risks are mitigated through a combination of resource planning processes and controls, including:

- the identification of key personnel with appropriate succession plans;
- the identification of key team profit generators and function holders with targeted retention packages;
- documented recruitment procedures, position descriptions and employment contracts; and
- resource monitoring and the provision of appropriate compensation, and training schemes.

## Notes to the accounts

For the year ended 31 December 2021

### 3. SEGMENTAL REPORTING

Management and the Board of Directors review the Company's business primarily by its four principal classes: Property, Energy, Marine and Aviation. These classes are therefore deemed to be the Company's operating segments for the purposes of segmental reporting. Further sub-classes of business are underwritten within each operating segment. The nature of these individual sub-classes is discussed further in the risk disclosures section in note 2. Operating segment performance is measured by the net underwriting profit or loss and the combined ratio.

All amounts reported are transactions with external parties with the exception of the outwards reinsurance amounts, which include related party transactions as detailed in note 15.

#### REVENUE AND EXPENSE BY OPERATING SEGMENT

For the year ended 31 December 2021	Property \$m	Energy \$m	Marine \$m	Aviation \$m	Total \$m
<b>Gross premiums written by geographic area</b>					
Worldwide- multi-territory	7.5	76.0	31.6	50.7	165.8
Europe	26.7	3.6	—	—	30.3
U.S. and Canada	49.7	24.7	0.2	2.0	76.6
Rest of world	16.3	14.4	—	—	30.7
<b>Total</b>	<b>100.2</b>	<b>118.7</b>	<b>31.8</b>	<b>52.7</b>	<b>303.4</b>
Outwards reinsurance premiums	(87.7)	(101.4)	(27.9)	(47.0)	(264.0)
Change in unearned premiums	(15.5)	(0.7)	(0.3)	2.6	(13.9)
Change in unearned premiums ceded	11.2	1.8	(0.3)	(2.5)	10.2
<b>Net premiums earned</b>	<b>8.2</b>	<b>18.4</b>	<b>3.3</b>	<b>5.8</b>	<b>35.7</b>
Insurance losses and loss adjustment expenses	(63.5)	(23.0)	(5.6)	(16.3)	(108.4)
Insurance losses recoverable	50.7	17.1	4.4	15.1	87.3
Insurance acquisition expenses	(15.2)	(24.7)	(9.9)	(10.9)	(60.7)
Insurance acquisition expenses ceded and override commission	19.3	31.9	11.7	17.0	79.9
<b>Net underwriting profit</b>	<b>(0.5)</b>	<b>19.7</b>	<b>3.9</b>	<b>10.7</b>	<b>33.8</b>
Net unallocated income and expenses					(31.7)
<b>Profit before tax</b>					<b>2.1</b>
Net loss ratio	156.1%	32.1%	36.4%	20.7%	59.1%
Net acquisition cost ratio <sup>1</sup>	22.0%	35.9%	42.4%	(29.3%)	31.8%
Expense ratio <sup>1</sup>	—	—	—	—	14.7%
<b>Combined ratio</b>	<b>178.1%</b>	<b>68.0%</b>	<b>78.8%</b>	<b>(8.6%)</b>	<b>105.6%</b>

(1) The acquisition cost ratio excludes override commission received which is included in the expense ratio.

## Notes to the accounts

For the year ended 31 December 2021

### REVENUE AND EXPENSE BY OPERATING SEGMENT

For the year ended 31 December 2020	Property \$m	Energy \$m	Marine \$m	Aviation \$m	Total \$m
<b>Gross premiums written by geographic area</b>					
Worldwide- multi-territory	4.7	68.3	35.7	55.7	164.4
Europe	12.0	3.9	—	—	15.9
U.S. and Canada	22.5	12.1	—	—	34.6
Rest of world	16.1	12.0	—	—	28.1
<b>Total</b>	<b>55.3</b>	<b>96.3</b>	<b>35.7</b>	<b>55.7</b>	<b>243.0</b>
Outwards reinsurance premiums	(50.1)	(84.6)	(30.3)	(51.4)	(216.4)
Change in unearned premiums	5.8	0.2	(5.0)	(2.5)	(1.5)
Change in unearned premiums ceded	(6.5)	1.5	2.3	2.0	(0.7)
<b>Net premiums earned</b>	<b>4.5</b>	<b>13.4</b>	<b>2.7</b>	<b>3.8</b>	<b>24.4</b>
Insurance losses and loss adjustment expenses	(28.5)	(60.3)	(12.2)	(29.9)	(130.9)
Insurance losses recoverable	24.6	50.6	9.7	27.2	112.1
Insurance acquisition expenses	(10.9)	(20.7)	(9.2)	(11.7)	(52.5)
Insurance acquisition expenses ceded and override commission	15.1	30.7	10.1	15.7	71.6
<b>Net underwriting profit</b>	<b>4.8</b>	<b>13.7</b>	<b>1.1</b>	<b>5.1</b>	<b>24.7</b>
Net unallocated income and expenses					(28.2)
<b>Loss before tax</b>					<b>(3.5)</b>
Net loss ratio	86.7 %	72.4 %	92.6 %	71.1 %	77.0 %
Net acquisition cost ratio <sup>1</sup>	37.8 %	30.6 %	85.2 %	10.5 %	38.1 %
Expense ratio <sup>1</sup>	—	—	—	—	16.0 %
<b>Combined ratio</b>	<b>124.5 %</b>	<b>103.0 %</b>	<b>177.8 %</b>	<b>81.6 %</b>	<b>131.1 %</b>

(1) The acquisition cost ratio excludes override commission received which is included in the expense ratio.

#### 4. INVESTMENT RETURN

The total investment return for the Company is as follows:

For the year ended 31 December 2021	Net investment income and net other investment income (losses) \$m	Net realised (losses) gains and impairments \$m	Net change in unrealised gains/losses on AFSI \$m	Total investment return excluding foreign exchange \$m
Fixed maturity securities – AFS	2.9	0.6	(3.9)	(0.4)
<b>Total investment return</b>	<b>2.9</b>	<b>0.6</b>	<b>(3.9)</b>	<b>(0.4)</b>

(1) Applying IFRS 9 net change in unrealised gains / losses on AFS will be classified within net investment income and net other investment income.

For the year ended 31 December 2020	Net investment income and net other investment income (losses) \$m	Net realised (losses) gains and impairments \$m	Net change in unrealised gains/losses on AFSI \$m	Total investment return excluding foreign exchange \$m
Fixed maturity securities – AFS	4.0	0.3	2.8	7.1
<b>Total investment return</b>	<b>4.0</b>	<b>0.3</b>	<b>2.8</b>	<b>7.1</b>

(1) Applying IFRS 9 net change in unrealised gains / losses on AFS will be classified within net investment income and net other investment income.

There were impairment losses on fixed maturity securities held by the Company of \$nil (2020 – \$nil).

Included in investment income is \$0.3 million (2020 – \$0.3 million) of investment management and custodian fees.



## Notes to the accounts

For the year ended 31 December 2021

### 5. NET INSURANCE ACQUISITION EXPENSES

	2021 \$m	2020 \$m
Insurance acquisition expenses	60.3	54.4
Changes in deferred insurance acquisition expenses	0.4	(1.9)
Insurance acquisition expenses ceded and override commission	(78.0)	(65.4)
Changes in deferred insurance acquisition expenses ceded	(1.9)	(6.2)
<b>Total net insurance acquisition expenses</b>	<b>(19.2)</b>	<b>(19.1)</b>

### 6. OTHER OPERATING EXPENSES

Other operating expenses are stated after charging the following amounts:

	2021 \$m	2020 \$m
Auditors' remuneration		
– audit fees	0.5	0.4
– audit related services	0.1	0.1
– non-audit services	—	—
<b>Total</b>	<b>0.6</b>	<b>0.5</b>

Fees paid to the Company's auditors for other services are approved by the Group's Audit Committee.

### 7. TAX

Tax (charge) credit in the Statement Of Comprehensive Income	2021 \$m	2020 \$m
Group relief (payable) receivable	(0.7)	0.3
Deferred tax credit for the period	0.3	0.4
Change in tax rates	—	(0.1)
<b>Total tax (charge) credit</b>	<b>(0.4)</b>	<b>0.6</b>

Tax reconciliation	2021 \$m	2020 \$m
Profit (loss) before tax	2.1	(3.5)
UK corporation tax at 19.0% (2020: 19.0%)	(0.4)	0.7
Change in tax rates	—	(0.1)
<b>Total tax (charge) credit</b>	<b>(0.4)</b>	<b>0.6</b>

Refer to note 9 for details of the tax expense related to the net change in unrealised gains and losses on investments that is included in accumulated other comprehensive income within shareholder's equity.

Taxation balances in the Statement Of Financial Position	2021 \$m	2020 \$m
Corporation tax receivable (payable)	0.6	(0.4)
Group relief payable to C98	—	(1.8)
Group relief payable to LISL	—	(0.1)
Group relief payable to CCHL	—	(0.2)
Group relief payable to LHL	—	(2.6)
<b>Total</b>	<b>0.6</b>	<b>(5.1)</b>

## Notes to the accounts

For the year ended 31 December 2021

### 8. CASH AND CASH EQUIVALENTS

	2021 \$m	2020 \$m
Cash at bank and in hand	24.3	24.2
Cash equivalents	11.0	16.2
<b>Total cash and cash equivalents</b>	<b>35.3</b>	<b>40.4</b>

Cash equivalents have an original maturity of three months or less. The carrying amount of these assets approximates their fair value.

### 9. INVESTMENTS

As at 31 December 2021	Cost or amortised cost \$m	Unrealised gains \$m	Unrealised losses \$m	Fair value <sup>1</sup> \$m
<b>Fixed maturity securities – AFS</b>				
– Short term investments	2.5	—	—	2.5
– U.S. treasuries	81.8	0.1	(0.4)	81.5
– Other government bonds	—	—	—	—
– U.S. municipal bonds	1.9	0.1	—	2.0
– Asset backed securities	0.6	—	—	0.6
– U.S. government agency mortgage backed securities	4.0	0.2	—	4.2
– Non-agency mortgage backed securities	—	—	—	—
– Corporate bonds	96.1	2.0	(0.3)	97.8
<b>Total investments</b>	<b>186.9</b>	<b>2.4</b>	<b>(0.7)</b>	<b>188.6</b>

(1) Applying IFRS 9 all investments held above will be classified as at FVTPL, with no resulting changes in the fair value.

As at 31 December 2020	Cost or amortised cost \$m	Unrealised gains \$m	Unrealised losses \$m	Fair value <sup>1</sup> \$m
<b>Fixed maturity securities – AFS</b>				
– Short term investments	8.0	—	—	8.0
– U.S. treasuries	57.0	0.6	—	57.6
– Other government bonds	3.1	—	—	3.1
– U.S. municipal bonds	2.0	0.2	—	2.2
– Asset backed securities	0.9	—	—	0.9
– U.S. government agency mortgage backed securities	6.2	0.3	—	6.5
– Non-agency mortgage backed securities	—	—	—	—
– Corporate bonds	108.8	5.4	—	114.2
<b>Total investments</b>	<b>186.0</b>	<b>6.5</b>	<b>—</b>	<b>192.5</b>

(1) Applying IFRS 9 all investments held above will be classified as at FVTPL, with no resulting changes in the fair value.

Accumulated other comprehensive loss is in relation to the fixed maturity investment portfolio and is as follows:

	2021 \$m	2020 \$m
Gross unrealised gains	2.4	6.5
Gross unrealised losses	(0.7)	—
Tax provision	(0.3)	(1.2)
<b>Accumulated other comprehensive income</b>	<b>1.4</b>	<b>5.3</b>

Fixed income maturities are presented in the risk disclosures section in note 2.

The Company determines the fair value of each individual security utilising the highest level inputs available. Prices for the Company's investment portfolio are provided by a third-party investment accounting firm whose pricing processes and the controls thereon are subject to an annual audit on both the operation and the effectiveness of those controls. The audit reports are available to clients of the firm and the report is reviewed annually by management. In accordance with their pricing policy, various recognised reputable pricing sources are used including broker-dealers and pricing vendors. The pricing sources use bid prices where available, otherwise indicative prices are quoted based on observable market trade data. The prices provided are compared to the investment managers' pricing. The Company has not made any adjustments to any pricing provided by independent pricing services or its third-party investment managers for either year ending 31 December.

The fair value of securities in the Company's investment portfolio is estimated using the following techniques:

### LEVEL (I)

Level (i) investments are securities with quoted prices in active markets. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.

### LEVEL (II)

Level (ii) investments are securities with quoted prices in active markets for similar assets or liabilities or securities valued using other valuation techniques for which all significant inputs are based on observable market data. Instruments included in Level (ii) are valued via independent external sources using modelled or other valuation methods. Such methods are typically industry accepted standard and include:

- broker-dealer quotes;
- pricing models or matrix pricing;
- present values;
- future cash flows;
- yield curves;
- interest rates;
- prepayment speeds; and
- default rates.

Other similar quoted instruments or market transactions may be used.

The Company determines securities classified as Level (ii) to include short-term and fixed maturity investments such as:

- Non-U.S. government bonds;
- U.S. municipal bonds;
- U.S. government agency bonds;
- Asset backed securities;
- U.S. government agency mortgage backed securities;
- Non-agency mortgage backed securities;
- Non-agency commercial mortgage backed securities; and
- Corporate bonds.

### LEVEL (III)

Level (iii) investments are securities for which valuation techniques are not based on observable market data. During the years ended 31 December 2021 and 31 December 2020, the Company did not hold any level (iii) investments.

The Company determines whether transfers have occurred between levels of the fair value hierarchy by re-assessing the categorisation at the end of each reporting period. Transfers between Level (i) to (ii) securities amounted to \$16.9 million (2020- \$ 18.3 million) and transfers from Level (ii) to (i) securities amounted to \$9.3 million during the year ended 31 December 2021 (2020 - \$14.0 million).

## Notes to the accounts

For the year ended 31 December 2021

The fair value hierarchy of the Company's investment holdings is as follows:

As at 31 December 2021	Level (i) \$m	Level (ii) \$m	Level (iii) \$m	Total \$m
<b>Fixed maturity securities</b>				
– Short term investments	2.5	—	—	2.5
– U.S. treasuries	81.5	—	—	81.5
– Other government bonds	—	—	—	—
– U.S. municipal bonds	—	2.0	—	2.0
– Asset backed securities	—	0.6	—	0.6
– U.S. government agency mortgage backed securities	—	4.2	—	4.2
– Corporate bonds	32.9	64.9	—	97.8
<b>Total fixed maturity securities</b>	<b>116.9</b>	<b>71.7</b>	<b>—</b>	<b>188.6</b>

As at 31 December 2020	Level (i) \$m	Level (ii) \$m	Level (iii) \$m	Total \$m
<b>Fixed maturity securities</b>				
– Short term investments	8.0	—	—	8.0
– U.S. treasuries	57.6	—	—	57.6
– Other government bonds	—	3.1	—	3.1
– U.S. municipal bonds	—	2.2	—	2.2
– Asset backed securities	—	0.9	—	0.9
– U.S. government agency mortgage backed securities	—	6.5	—	6.5
– Corporate bonds	47.3	66.9	—	114.2
<b>Total fixed maturity securities</b>	<b>112.9</b>	<b>79.6</b>	<b>—</b>	<b>192.5</b>

There were no level (iii) investments as at 31 December 2021 or 31 December 2020, therefore a reconciliation of movements within that level has not been presented.

### 10. INTERESTS IN STRUCTURED ENTITIES

As part of its investment activities, the Company invests in unconsolidated structured entities. As at 31 December 2021, the Company's total interest in unconsolidated structured entities was \$4.8 million (31 December 2020 – \$7.4 million). The Company does not sponsor any of the unconsolidated structured entities.

A summary of the Company's interest in unconsolidated structured entities is as follows:

As at 31 December	2021 \$m	2020 \$m
<b>Fixed maturity securities</b>		
– Asset backed securities	0.6	0.9
– U.S. government agency mortgage backed securities	4.2	6.5
<b>Total</b>	<b>4.8</b>	<b>7.4</b>

Whilst individual securities may differ in structure, the principles of the instruments are broadly the same and it is appropriate to aggregate the investments into the categories above.

These structured entities are created to meet specific investment needs of borrowers and investors which cannot be met from standard financial instruments available in capital markets. As such, they provide liquidity to the borrowers in these markets and provide investors with an opportunity to diversify away from standard fixed maturity securities.

The risk that the Company faces in respect of the investments in structured entities is similar to the risk it faces in respect of other financial investments held on the balance sheet in that fair value is determined by market supply and demand. This is in turn driven by investor evaluation of the credit risk of the structure and changes in term structure of interest rates which change investors' expectation of the cash flows associated with the instrument and, therefore, its value in the market. Risk management disclosure for these financial instruments and other investments is provided on pages 30 to 33.

The maximum exposure to loss in respect of these structured entities would be the carrying value of the instruments that the Company holds as at 31 December 2021 and 31 December 2020. Generally, default rates would have to increase substantially from their current level before the Company would suffer a loss and this assessment is made prior to investing and continually through the holding period for the security. The Company has not provided any other financial or other support in addition to that described above as at the reporting date, and there are no intentions to provide support in relation to any other unconsolidated structured entities in the foreseeable future.

## Notes to the accounts

For the year ended 31 December 2021

### 11. LOSSES AND LOSS ADJUSTMENT EXPENSES

	Losses and loss adjustment expenses \$m	Reinsurance recoveries \$m	Net losses and loss adjustment expenses \$m
<b>As at December 2019</b>	234.3	(199.5)	34.8
Net incurred losses for:			
Prior years	(19.4)	15.2	(4.2)
Current year	150.3	(127.3)	23.0
Exchange adjustments	3.3	(2.7)	0.6
<b>Incurred losses and loss adjustment expenses</b>	<b>134.2</b>	<b>(114.8)</b>	<b>19.4</b>
Net paid losses for:			
Prior years	54.7	(47.4)	7.3
Current year	20.9	(18.9)	2.0
<b>Paid losses and loss adjustment expenses</b>	<b>75.6</b>	<b>(66.3)</b>	<b>9.3</b>
<b>As at 31 December 2020</b>	<b>292.9</b>	<b>(248.0)</b>	<b>44.9</b>
Net incurred losses for:			
Prior years	(63.7)	54.1	(9.6)
Current year	172.1	(141.4)	30.7
Exchange adjustments	(7.7)	6.2	(1.5)
<b>Incurred losses and loss adjustment expenses</b>	<b>100.7</b>	<b>(81.1)</b>	<b>19.6</b>
Net paid losses for:			
Prior years	59.5	(52.1)	7.4
Current year	28.3	(22.9)	5.4
<b>Paid losses and loss adjustment expenses</b>	<b>87.8</b>	<b>(75.0)</b>	<b>12.8</b>
<b>As at 31 December 2021</b>	<b>305.8</b>	<b>(254.1)</b>	<b>51.7</b>

Further information on the calculation of loss reserves and the risks associated with them is provided in the risk disclosures section from note 2. The risks associated with general insurance contracts are complex and do not readily lend themselves to meaningful sensitivity analysis. The impact of an unreported event could lead to a significant increase in the Company's loss reserves. The Company believes that the loss reserves established are adequate, however a 20.0% increase in estimated losses would lead to a \$61.2 million (2020 – \$58.6 million) increase in gross loss reserves and a \$10.3 million (31 December 2020 – \$9.0 million) increase in net loss reserves. During the year the Company refined its reserving methodology to make its margin more explicit as it transitions to IFRS 17.

The split of net losses and loss adjustment expenses between notified outstanding losses and losses incurred but not reported is shown below:

As at 31 December	2021		2020	
	\$m	%	\$m	%
Outstanding losses	12.0	23.2	8.3	18.5
Additional case reserves	26.2	50.7	25.1	55.9
Losses incurred but not reported	13.5	26.1	11.5	25.6
<b>Total</b>	<b>51.7</b>	<b>100.0</b>	<b>44.9</b>	<b>100.0</b>

The Company's reserve for unpaid losses and loss adjustment expenses as at 31 December 2021 and 2020 had an estimated duration of approximately two years.

## Notes to the accounts

For the year ended 31 December 2021

### CLAIMS DEVELOPMENT

The development of insurance liabilities is indicative of the Company's ability to estimate the ultimate value of its insurance liabilities. The Company began writing insurance and reinsurance business in October 2006.

Accident year	2011 and prior \$m	2012 \$m	2013 \$m	2014 \$m	2015 \$m	2016 \$m	2017 \$m	2018 \$m	2019 \$m	2020 \$m	2021 \$m	Total \$m
<b>Gross losses</b>												
Estimate of ultimate liability <sup>1</sup>												
At end of accident year	624.7	168.9	137.6	118.4	137.0	141.4	89.7	126.7	94.2	152.0	167.3	
One year later	545.3	144.4	126.8	93.6	110.6	149.3	93.8	120.8	76.7	112.9		
Two years later	540.8	140.5	104.2	83.2	102.6	130.3	86.2	104.0	61.3			
Three years later	550.9	132.8	108.7	78.6	99.0	104.6	102.6	104.5				
Four years later	569.0	122.7	106.5	76.3	93.7	103.1	98.9					
Five years later	588.5	121.7	106.2	77.5	92.7	94.3						
Six years later	593.8	121.7	106.2	77.5	92.7							
Seven years later	565.7	117.2	106.5	77.6								
Eight years later	565.7	117.2	106.5									
Nine years later	566.6	117.2										
Ten years later	566.6											
<b>Current estimate of cumulative liability</b>	<b>5.5</b>	<b>0.8</b>	<b>7.0</b>	<b>3.7</b>	<b>4.9</b>	<b>2.0</b>	<b>23.5</b>	<b>18.3</b>	<b>34.1</b>	<b>67.0</b>	<b>139.0</b>	<b>305.8</b>
<b>Payments made</b>	<b>561.1</b>	<b>116.4</b>	<b>99.5</b>	<b>73.9</b>	<b>87.8</b>	<b>92.3</b>	<b>75.4</b>	<b>86.2</b>	<b>27.2</b>	<b>45.9</b>	<b>28.3</b>	<b>1,294.0</b>
<b>Total gross liability</b>	<b>566.6</b>	<b>117.2</b>	<b>106.5</b>	<b>77.6</b>	<b>92.7</b>	<b>94.3</b>	<b>98.9</b>	<b>104.5</b>	<b>61.3</b>	<b>112.9</b>	<b>167.3</b>	<b>1,599.8</b>

(1) Adjusted for revaluation of foreign currencies at the exchange rate as at 31 December 2021.

Accident year	2011 and prior \$m	2012 \$m	2013 \$m	2014 \$m	2015 \$m	2016 \$m	2017 \$m	2018 \$m	2019 \$m	2020 \$m	2021 \$m	Total \$m
<b>Reinsurance</b>												
Estimate of ultimate recovery <sup>1</sup>												
At end of accident year	536.1	146.1	113.9	98.1	114.6	126.4	72.7	109.7	82.3	128.7	137.5	
One year later	466.1	127.3	105.2	77.6	93.3	137.2	79.0	108.8	67.1	96.0		
Two years later	462.4	123.1	86.5	68.7	86.4	122.0	73.9	95.0	53.0			
Three years later	472.9	116.8	90.2	65.2	83.4	97.1	89.0	95.3				
Four years later	490.5	107.8	88.4	63.4	79.1	95.7	86.3					
Five years later	506.6	107.7	88.1	64.5	78.1	88.4						
Six years later	511.3	107.6	88.1	64.4	78.1							
Seven years later	487.9	103.8	88.4	64.5								
Eight years later	488.7	103.8	88.4									
Nine years later	489.6	103.8										
Ten years later	489.6											
<b>Current estimate of cumulative recovery</b>	<b>4.6</b>	<b>0.7</b>	<b>5.8</b>	<b>3.1</b>	<b>4.0</b>	<b>1.7</b>	<b>19.5</b>	<b>15.1</b>	<b>29.9</b>	<b>55.1</b>	<b>114.6</b>	<b>254.1</b>
<b>Payments received</b>	<b>485.0</b>	<b>103.1</b>	<b>82.6</b>	<b>61.4</b>	<b>74.1</b>	<b>86.7</b>	<b>66.8</b>	<b>80.2</b>	<b>23.1</b>	<b>40.9</b>	<b>22.9</b>	<b>1,126.8</b>
<b>Total reinsurance recoverable</b>	<b>489.6</b>	<b>103.8</b>	<b>88.4</b>	<b>64.5</b>	<b>78.1</b>	<b>88.4</b>	<b>86.3</b>	<b>95.3</b>	<b>53.0</b>	<b>96.0</b>	<b>137.5</b>	<b>1,380.9</b>

(1) Adjusted for revaluation of foreign currencies at the exchange rate as at 31 December 2021.

## Notes to the accounts

For the year ended 31 December 2021

Accident year	2011 and prior \$m	2012 \$m	2013 \$m	2014 \$m	2015 \$m	2016 \$m	2017 \$m	2018 \$m	2019 \$m	2020 \$m	2021 \$m	Total \$m
<b>Net losses</b>												
Estimate of ultimate liability <sup>1</sup>												
At end of accident year	88.6	22.8	23.7	20.3	22.4	15.0	17.0	17.0	11.9	23.3	29.8	
One year later	79.2	17.1	21.6	16.0	17.3	12.1	14.8	12.0	9.6	16.9		
Two years later	78.4	17.4	17.7	14.5	16.2	8.3	12.3	9.0	8.3			
Three years later	78.0	16.0	18.5	13.4	15.6	7.5	13.6	9.2				
Four years later	78.5	14.9	18.1	12.9	14.6	7.4	12.6					
Five years later	81.9	14.0	18.1	13.0	14.6	5.9						
Six years later	82.5	14.1	18.1	13.1	14.6							
Seven years later	77.8	13.4	18.1	13.1								
Eight years later	77.0	13.4	18.1									
Nine years later	77.0	13.4										
Ten years later	77.0											
<b>Current estimate of cumulative liability</b>	<b>0.9</b>	<b>0.1</b>	<b>1.2</b>	<b>0.6</b>	<b>0.9</b>	<b>0.3</b>	<b>4.0</b>	<b>3.2</b>	<b>4.2</b>	<b>11.9</b>	<b>24.4</b>	<b>51.7</b>
<b>Payments made</b>	<b>76.1</b>	<b>13.3</b>	<b>16.9</b>	<b>12.5</b>	<b>13.7</b>	<b>5.6</b>	<b>8.6</b>	<b>6.0</b>	<b>4.1</b>	<b>5.0</b>	<b>5.4</b>	<b>167.2</b>
<b>Total net liability</b>	<b>77.0</b>	<b>13.4</b>	<b>18.1</b>	<b>13.1</b>	<b>14.6</b>	<b>5.9</b>	<b>12.6</b>	<b>9.2</b>	<b>8.3</b>	<b>16.9</b>	<b>29.8</b>	<b>218.9</b>

(1) Adjusted for revaluation of foreign currencies at the exchange rate as at 31 December 2021.

The inherent uncertainty in reserving gives rise to favourable or adverse development on the established reserves. The total favourable development on net losses and loss adjustment expenses, excluding the impact of foreign exchange revaluations, was as follows:

	2021		2020	
	Gross \$m	Net \$m	Gross \$m	Net \$m
2011 accident year and prior	—	—	(0.8)	—
2012 accident year	—	—	—	—
2013 accident year	—	—	(0.2)	—
2014 accident year	(0.4)	(0.1)	(0.9)	(0.1)
2015 accident year	0.2	0.1	0.6	0.1
2016 accident year	8.8	1.4	1.5	0.1
2017 accident year	3.6	0.9	(15.9)	(1.2)
2018 accident year	(1.0)	(0.2)	17.0	3.0
2019 accident year	15.1	1.3	18.1	2.3
2020 accident year	37.4	6.2	—	—
<b>Total favourable development</b>	<b>63.7</b>	<b>9.6</b>	<b>19.4</b>	<b>4.2</b>

The favourable development in 2021 was primarily driven by general IBNR releases on the 2020 accident year across most lines of business due to a lack of reported claims.

The largest net loss the Company suffered during the year was a risk loss relating to its political violence subclass which was adversely impacted by the unrest in South Africa in July. The only other individually significant net loss during the year was from hurricane Ida, which made landfall on 29 August 2021, in the U.S. state of Louisiana and continued its path across the U.S. mainland into the north-eastern region, causing significant property and flooding damage.

## Notes to the accounts

For the year ended 31 December 2021

### 12. INSURANCE, REINSURANCE AND OTHER RECEIVABLES

	2021 \$m	2020 \$m
Inwards premiums receivable from insureds and cedants	142.2	130.3
Reinsurance assets		
- Reinsurance recoveries	254.1	248.0
- Other receivables	20.2	19.5
Other receivables	2.7	1.2
Accrued interest receivable	0.8	1.1
Total receivables	420.0	400.1

Other receivables consist primarily of unsettled investment trades and prepaid expenses. All receivables are considered current other than \$11.2 million (31 December 2020 – \$12.6 million) of inwards premiums receivable related to multi-year contracts. The carrying value approximates fair value due to the short-term nature of the receivables. There are no significant concentrations of credit risk within the Company's receivables.

### 13. DEFERRED TAX

As at 31 December	2021 \$m	2020 \$m
Deferred tax liability	(0.2)	(1.4)

The deferred tax asset relates mainly to timing differences on capital allowances and is classified as non-current.

Changes to the UK main rate of corporation tax have been enacted under the Finance Act 2021 increasing the tax rate to 25% from 19%, effective 1 April 2023. This has resulted in the recognition of deferred tax assets and liabilities at 25% on items where the tax reversal is expected to take effect on 1 April 2023, with a related tax expense of \$nil.

### 14. SHARE CAPITAL

Authorised ordinary shares of £1 each	Number	£m	
As at 31 December 2021 and 2020	200,000,000	200.0	

Allocated, called up and fully paid	Number	£m	\$m
As at 31 December 2021 and 2020	97,987,956	98.0	188.4

During 2021, the Directors authorised the payment of an interim dividend of \$nil (2020 - \$nil).

### 15. RELATED PARTY DISCLOSURES

#### REMUNERATION OF DIRECTORS

The Company has no employees. All UK employees in the Lancashire Group are employed and remunerated by LISL. The emoluments of these employees are recharged as part of a management charge under a management service agreement.

	2021 \$m	2020 \$m
Directors' remuneration	2.1	3.1
Amounts receivable under long term incentive schemes	0.5	1.1
Company contributions to money purchase pension plans	0.1	0.1

The aggregate of remuneration and amounts receivable under long term incentive schemes of the highest paid Director was \$848,842 (2020: \$1,257,227), and Company pension contributions of \$5,508 (2020: \$7,045) were made to a money purchase scheme on their behalf. During the year, the highest paid Director did not exercise RSS awards.



## Notes to the accounts

For the year ended 31 December 2021

	Number of directors	
	2021	2020
Retirement benefits are accruing to the following number of directors under:		
Money purchase schemes	4	5
The number of directors who exercised RSS awards was	2	2
The number of directors in respect of whose qualifying services shares were received or receivable under long term incentive schemes was	—	—

The interests of the directors in shares and restricted stock of LHL are as follows:

For the year ended 31 December	shares		restricted stock	
	2021	2020	2021	2020
John Cadman	—	—	269,009	212,369
Russell Worsley	33,328	33,328	51,100	41,800
James Flude	452	452	116,300	66,300
Steve Yeo	44,818	36,312	63,300	48,300

The interests of Samantha Hoe-Richardson are disclosed in the Annual Report and Accounts of LHL. None of the other non-executive directors have any interest in the shares and restricted stock of LHL.

### TRANSACTIONS WITH AFFILIATES

Other operating expenses include the following amounts related to transactions with LICL, LISL and LMSCL under insurance service agreements.

	2021 \$m	2020 \$m
<b>Income statement</b>		
Service fee payable to LISL	24.4	23.1
Service fee payable to LICL	0.7	0.6
Service fee payable to LMSCL	—	0.1
<b>Total</b>	<b>25.1</b>	<b>23.8</b>

The Company has entered into a quota share treaty agreement with LICL. Under this agreement, the Company cedes a share of all its business written or assumed and receives an override commission. The following balances and transactions with LICL under the quota share treaty are included in the Company's financial statements:

	2021 \$m	2020 \$m
<b>Balance sheet</b>		
<b>Assets</b>		
Reinsurance assets		
– Unearned premiums on premiums ceded	89.5	84.5
– Reinsurance recoveries	208.3	185.3
<b>Liabilities</b>		
Amounts payable to reinsurers	17.7	23.1
Deferred acquisition costs ceded	25.3	28.0
<b>Statement of comprehensive income</b>		
Outwards reinsurance premiums	(154.2)	(117.8)
Change in unearned premiums on premiums ceded	5.0	(0.9)
Insurance losses and loss adjustment expenses recoverable	82.3	75.3
Insurance acquisition expenses ceded and override commission	70.9	62.1

The Company has entered into an underwriting services agreement with LSL on behalf of Lancashire Syndicate 3010. Under the terms of this agreement, the Company receives an override commission. The override commission receivable in relation to 2021 was \$0.0 million (2020 - \$0.9 million). During the year it was agreed to reduce the service fee recharge from LISL instead of charging an override commission.

## Notes to the accounts

For the year ended 31 December 2021

The Company has entered into a quota share treaty agreement with LSL on behalf of Lancashire Syndicate 3010. Under this agreement, the Company assumes a share of certain business written or assumed and receives an override commission. The following balances and transactions with LSL on behalf of Syndicate 3010 under the quota share treaty are included in the Company's financial statements:

Balance sheet	2021 \$m	2020 \$m
<b>Assets</b>		
Insurance assets		
– Premium receivable	13.3	2.9
– Deferred acquisition costs	3.2	0.7
<b>Liabilities</b>		
– Outstanding loss reserve	1.8	1.0
– Unearned premium reserve	10.8	1.7

Statement of comprehensive income	2021 \$m	2020 \$m
Gross written premiums	15.0	2.0
Change in unearned premiums	(9.0)	(1.3)
Insurance losses and loss adjustment expenses	(0.8)	(0.3)
Insurance acquisition expenses	(1.8)	(0.5)

During 2017 the Company entered into a catastrophe excess of loss reinsurance agreement with LSL on behalf of Lancashire Syndicate 2010. The Company has recognised a total of \$12.5m in relation to claims on the contract (2020 - \$13.5 million) including a release of \$1.0m during 2021 (2020 - release of 0.8m). Claims of \$9.7 million were paid in 2021 (2020 - \$ nil).

### CONTINGENT LIABILITY

The Company provides guarantees in respect of the obligations of LISL under three operating leases to rent office accommodation. These operating leases were assigned to a third party during 2014, but LISL retains liability for the payments in the event of the default of the third party and its guarantor. The directors believe the risk of the third party and its guarantor not meeting their obligations under the leases to be remote. The leases expire in 2021.

## 16. PARENT COMPANY AND ULTIMATE HOLDING COMPANY

The Company's immediate parent company is LIHL, a company registered in England. LHL, registered in Bermuda, owns 100 per cent of the issued share capital of LIHL as at 31 December 2021 and is the Company's ultimate holding company. The Company's parent and ultimate holding is Lancashire Holdings Limited, a company incorporated in Bermuda and whose registered office is Power House, 7 Par-la-Ville Road, Hamilton, HM 11, Bermuda.

The financial statements of LHL may be viewed on Lancashire Holdings Limited's website at [www.lancashiregroup.com](http://www.lancashiregroup.com).

**Acquisition cost ratio**

Ratio, in percent, of the sum of expenses for acquisition costs to net earned premiums

**ACR**

Additional case reserves

**Aggregate/Aggregation**

Accumulations of insurance loss exposures which result from underwriting multiple risks that are exposed to common causes of loss

**AFS**

Available for sale

**C98**

Cathedral Capital (1998) Limited

**CCHL**

Cathedral Capital Holdings Limited

**CCSL**

Cathedral Capital Services Limited

**CEO**

Chief Executive Officer

**BREEM**

Building Research Establishment Environmental Assessment Method

**Claim**

Demand by an insured for indemnity under an insurance contract

**Combined ratio**

Ratio, in percent, of the sum of net insurance claims, expenses for acquisition of insurance contracts and administrative expenses to net earned premiums

**The Company**

Lancashire Insurance Company (UK) Limited

**CRO**

Chief Risk Officer

**Deferred acquisition costs**

Costs incurred for the acquisition or the renewal of insurance policies (e.g. brokerage and premium taxes) which are deferred and amortised over the term of the insurance contracts to which they relate

**Duration**

Duration is the weighted average maturity of a security's cash flows, where the present values of the cash flows serve as the weights. The effect of the convexity on the portfolio's response to changes in interest rates is also factored in to the calculation

**EEA**

European Economic Area

**EIOPA**

European Insurance and Occupational Pensions Authority

**ERM**

Enterprise Risk Management

**ESG**

Environmental, Social and Corporate Governance

**Excess of loss (XoL)**

Reinsurance or insurance that indemnifies the reinsured or insured against all or a specified portion of losses on an underlying insurance policy in excess of a specified amount

**Expense ratio**

Ratio, in percent, of the sum of expenses for administrative expenses to net earned premiums

**EU**

European Union

**Facultative reinsurance**

A reinsurance risk that is placed by means of a separately negotiated contract as opposed to one that is ceded under a reinsurance treaty

**FCBVS**

Fully converted book value per share

**FCA**

Financial Conduct Authority

**FRC**

Financial Reporting Council

**FTE**

Full time equivalent

**FVTPL**

Fair Value Through Profit and Loss

**GHG**

Greenhouse gas emissions covers carbon dioxide (CO<sub>2</sub>), methane (CH<sub>4</sub>), nitrous oxide (N<sub>2</sub>O), hydrofluorocarbons (HFC), perfluorocarbons (PFC), nitrogen trifluoride (NF<sub>3</sub>) and sulphur hexafluoride (SF<sub>6</sub>)

**GMT**

Greenwich Mean Time

**Gross premiums written**

Amounts payable by the insured, excluding any taxes or duties levied on the premium, including any brokerage and commission deducted by intermediaries

**The Group**

LHL and its subsidiaries

**Industry Loss Warranty (ILW)**

A type of reinsurance or derivative contract through which one party will purchase protection based on the total loss arising from an event to the entire insurance industry rather than their own losses

**International Accounting Standards (IAS)**

Standards for the preparation and presentation of financial statements created by the International Accounting Standards Board (IASB)

**Incurred by not reported (IBNR)**

These are anticipated or likely claims that may result from insured events which have taken place, but for which no claims have yet been reported.

**IFRIC**

International Financial Reporting Interpretations Committee

**IFRS**

International Financial Reporting Standards (as adopted by the European Union)

**Internal audit charter**

A formal written document that sets out the mission, scope, responsibilities, authority, professional standards and the relationship with the external auditors and regulatory bodies of the internal audit function with the Company and its subsidiaries

**IUA**

International Underwriting Association

**Lancashire Foundation**

The Lancashire Foundation is a charity registered in England and Wales

**LHL**

Lancashire Holdings Limited

**LICL**

Lancashire Insurance Company Limited

**LIHL**

Lancashire Insurance Holdings (UK) Limited

**LIMSL**

Lancashire Insurance Marketing Services Limited

**LISL**

Lancashire Insurance Services Limited

**Lloyd's**

The Society of Lloyd's

**Lloyd's Brussels**

Lloyd's Insurance Company SA, the insurer that Lloyd's has established in Brussels

**LMSC**

Lancashire Management Services Canada Limited

**Loss ratio**

Ratio, in percent, of net insurance claims to net earned premiums

**LSL**

Lancashire Syndicates Limited

**LUK**

Lancashire Insurance Company (UK) Limited

**MSCI**

MSCI Incorporated

**Net premiums written**

Net premiums written is equal to gross premiums written less outward reinsurance premiums written

**ORSA**

Own Risk and Solvency Assessment

**PRA**

Prudential Regulation Authority

**PRI**

Principles for Responsible Investment

**Return on Equity (RoE)**

Ratio, in percent, calculated by dividing the consolidated profit after tax by the average total equity

**Risk**

May variously refer to: the possibility of some event occurring which causes injury or loss, the subject matter of an insurance or reinsurance contract or an insured peril

**RRC**

The Group's Risk and Return Committee

**RSS**

The Group's restricted share scheme operated by LHL

**S&P Global Ratings (S&P)**

S&P Global Ratings is a worldwide insurance rating and information agency whose ratings are recognised as an ideal benchmark for assessing the financial strength of insurance related organisations

**TCFD**

Task Force on Climate-related Financial Disclosures

**Treaty**

A reinsurance contract under which the reinsurer agrees to offer and to accept all risks of a certain size within a defined class

**Unearned premium**

The portion of premium income that is attributable to periods after the balance sheet date is deferred and amortised to future accounting periods

**UNEP FI**

United Nations Environment Programme Finance Initiative

**U.S.**

United States

**U.S. GAAP**

Accounting principles generally accepted in the United States

**VaR**

Value at Risk